S. HRG. 101-167

S. 863 AND S. 759

HEARING

BEFORE THE

SUBCOMMITTEE ON
RURAL ECONOMY AND FAMILY FARMING

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

ASSESSING THE IMPACT OF S. 863, THE RURAL ACCESS TO CAPITAL ACT OF 1989, AND S. 759, THE RURAL ACCESS TO TELECOMMUNICATIONS SERVICE ACT OF 1989, ON RURAL COMMUNITIES

MAY 24, 1989

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CONTENTS

	Page
Statement of Senators:	
Baucus, Hon. Max, a U.S. Senator from the State of Montana	1
Burns, Hon. Conrad, a U.S. Senator from the State of Montana	3
Statement of:	
Barksdale, Henry C., president, Runwest, Inc., Belgrade, MT	108
Beale, Calvin L., Senior Demographer, Economic Research Service, U.S. Department of Agriculture, Washington, DC	82
Domenech, John S., president and chief executive officer, Skyland Scientific Services, Inc., Bozeman, MT	123
Foren, Wayne S., Director, Office of Economic Development, U.S. Small Business Administration, Washington, DC	67
Herman, Karen, administrator, Sweet Grass Community Hospital, Big Timber, MT	131
Letson, Michael, director, Montana Department of Commerce, Helena, MT	95
Leuthold, Eddie, incorporator, Economic Development Corporation of Yellowstone County, Billings, MT	19
Odasz, Frank, professor, Western Montana College, Dillon, MT	112
Owens, Earl, general manager, Blackfoot Telephone Cooperative, Missoula, MT	44
Peoples, Donald R., chief executive, Butte-Silver bow, MT	9
Scott, James, executive vice president, First Interstate Banksystem, Billings, MT	26
Sprain, Kenneth L., vice president, Northwestern Systems, Inc., Kalispell, MT	52
Walker, Dan L., director for public affairs, U.S. West, Billings, MT	39

APPENDIX

Letter to Senator Baucus, from Larry Thompson, president, Hardin Area Chamber of Commerce and Agriculture, Inc., Hardin, MT	137
Letter dated May 23, 1989, to Senator Baucus, from Tony Preite, executive director, Bear Paw Development Corp. of Northern Montana, Havre, MT	139
Letter dated May 24, 1989, to Montana editors, reporters, and news directors, from Senator Baucus	147
Letter dated May 16, 1989, to Senator Baucus, from Barry C. Roose, finance officer, Department of Commerce, Business Assistance Division, State of Montana, Helena, MT	149
Letter dated May 16, 1989, re: S. 759, to Senator Baucus, from Elly Walkowiak, director, Lewistown/Fergus County Planning Boards, Lewistown, MT	152
Letter dated May 16, 1989, re: S. 863, to Senator Baucus, from Elly Walkowiak, director, Lewistown/Fergus County Planning Boards, Lewistown, MT	155
Letter dated May 22, 1989, to Senator Baucus, from Ralph L. Hutcheson, president, Scientific Materials Corp., Bozeman, MT	157

HEARING DATE

May 24, 1989:	
Morning session	1

S. 863, THE RURAL ACCESS TO CAPITAL ACT OF 1989, AND S. 759, THE RURAL ACCESS TO TELECOMMUNICATIONS SERVICE ACT OF 1989

WEDNESDAY, MAY 24, 1989

U.S. SENATE,
SUBCOMMITTEE ON RURAL ECONOMY
AND FAMILY FARMING, OF THE
COMMITTEE ON SMALL BUSINESS,
Livingston, MT.

The Subcommittee met at 8 a.m., in the Community Room of the Park County Courthouse, Hon. Max Baucus (Chairman of the Subcommittee) presiding.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. Good morning. Welcome to this morning's hearing.

I called this hearing today to talk about Montana's economy. It's important to all of us and to our families.

There isn't a trip to or from Montana where I don't meet Montanans on the plane. When we start talking about their families, more often than not they tell me their children have been forced to leave Montana to find work elsewhere.

I think that's wrong. I think Montana should export goods, not Montanans. That's why I've made jobs for Montanans my No. 1 priority for the 101st Congress.

We've all seen the changes that have happened over the past 2 decades. The world is changing, and Montana—like America—has to realize that we're no longer alone.

We've seen good times. Remember during the Seventies when Montana enjoyed an almost unprecedented prosperity? Rising agricultural exports and energy prices created an economic boom. The State's population, employment, and income grew dramatically.

But the growth of the Seventies gave way to economic decline in the Eighties.

During the Eighties, virtually all of Montana's basic industries have experienced hard times. Agriculture, timber, and mining have been forced to undergo significant change. Quite often that change has meant reductions in jobs and in wages. Since 1979, these industries have lost about 12,000 jobs, and total worker earnings dropped about 25 percent.

Many Montanans ask me why this has happened. Why is Montana experiencing such hard times?

There are many reasons. Some of them are structural. And some of them are cyclical.

But another reason is that over the past decade, the Federal Government has taken a "laissez faire" approach to economic development.

Deregulate. Let the chips fall where they may. If a coastal metropolis thrives at the expense of rural States like Montana, so be it. It's the price of progress, and if people don't like it, they can pack up and move. Well, that's what's happening. This heartless laissez faire approach is punishing thousands of Montanans every year. It is forcing our kids to move out in search of jobs elsewhere. Since 1980, about 29,000 more people moved out of Montana than moved in.

That's not right. And it's inconsistent with our basic values. Our national motto, after all, is not "every man for himself," but "E Pluribus Unum." We're all in this together.

I think everyone here agrees that in order to compete in today's global economy, Montana must further diversify its economic base. Last Congress, as Chairman of the Rural Economy Subcommittee, I held five hearings which looked at the Federal role in helping to foster this diversification.

The hearings showed that Congress should concentrate on ensuring that rural areas have a few basic tools. One of those tools is access to state-of-the-art telecommunications services.

On April 11, I introduced legislation, S. 759, the "Rural Access to Telecommunications Services Act of 1989," to bring this tool to rural areas. Under my legislation, rural businesses, hospitals, and schools will all have access to telecommunications services equal to those available in urban areas.

Another essential tool is access to capital for businesses that want to locate or expand in rural areas. Many of these businesses, because of their location, are considered by banks to be more risky than others and have found it next-to-impossible to secure adequate financing.

On April 19, I introduced legislation to address this problem. My legislation, S. 863, the "Rural Access to Capital Act of 1989," will establish a public/private partnership revolving loan fund at the SBA to make capital more readily available in rural businesses.

A third tool is access to adequate transportation. As many of you know, I recently led the fight to save the Essential Air Service Program which is so critical to Montana. If the Department of Transportation had its way, seven Montana communities could have lost all air service.

I will soon introduce legislation that will make sure EAS does not run short of funds again. The legislation will make EAS an entitlement under the Airport and Airway Trust Fund. That way, funds will always be available for the program. Rural communities will be able to plan for the future and attract business investment without fear that air service may one day be eliminated.

Today, I would like to discuss my legislation, which has bipartisan support, and hear Montanans views about how it can be improved to be most effective in Montana.

I look forward to your comments.

Conrad, we're very happy to have you here.

STATEMENT OF HON. CONRAD BURNS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BURNS. Thank you, Senator Baucus. It's nice to be here. It's nice to have a hearing in Montana. We're not used to this kind of a climate back there, and we kind of like this.

I, too, am a Member of the Rural Revitalization Task Force, and I want to congratulate Senator Baucus for holding these hearings, they're timely and they're apropos. I would ask that my written statement be a part of the record of today's hearing, Mr. Chairman.

And I'll just make a few opening comments because I know we have had a problem out here in Montana. I would say most of our problems deal with the fact that we had two of our mainstay industries get in trouble, financial trouble and economic trouble at the same time, and we've never had that happen in the State of Montana. Of course that is namely energy and agriculture, and then we complicated that with a drought, so I guess it highlights just how fragile the economy in rural America really is.

I've only been in the Senate a short time, and I realize that, as Senator Baucus has reiterated, that most of the problems we have are west of the hundredth meridian. We have an eastern mentality back there that just does not understand, in many cases, the problems that confront us out here.

Policies made in Washington can have a devastating impact on rural America. For example, the Long-Term Conservation Reserve Program operated by the Department of Agriculture has tied many farmers' hands by locking away as much as one-fourth of the productive land for 10 or more years. That has been one of the most devastating things that we have had happen to our small towns and cities in the State of Montana.

Synonymous with small towns and rural communities are small business, which is the reason we're here today. We're here to ask people who matter the most, those who are on the front lines, those that we can encourage in rural economic development.

In my view small businesses are not looking for a Government handout in order to survive. Instead they're looking for a way to get the crushing weight of the Government off their backs so they can get back to providing employment and serving the needs of rural Americans.

The decisions made in Washington such as raising the minimum wage, adding a Section 89 to the IRS code, do more to stifle small businesses than do economic downturns in our overall economy.

Government can play a positive role in economic development in rural America, and I believe the Federal Government should offer some sort of a helping hand to do that. As Senator Baucus has alluded to, there are several bills out there that are going to try to address this problem. And it will be up to us to sift through that legislation and to see what really will help Montana.

Transportation, communications services are the key to rural America, and we can see that coming all the time. I think private enterprise has taken a major step in providing all of these services,

and as that technology surfaces and is put into use, we can no longer become an island or remote from the rest of the country.

Capital formation will continue to be a problem for rural America, but Senator Baucus has introduced a bill, and I have introduced a bill with Senator Boschwitz giving small business more options in this area, and we're here today to get your input. We'd like to hear from you on what your ideas are and take those ideas back.

I want to apologize for being just a little late this morning, but like I say, we ran out of gas and them darned cars will not run without gasoline.

And so, Mr. Chairman, it's all yours.

I would like to have my remarks as part of the record.

Senator BAUCUS. They will be included.

[The prepared statement of Senator Burns follows:]

REVITALIZING RURAL AMERICA
SENATOR CONRAD BURNS (R-MT)
LIVINGSTON, MONTANA
MAY 24, 1989

Good morning Mr. Chairman and fellow Montanans. It feels good to be here in Montana today holding this hearing in Livingston, rather than back in Washington, D.C. Back in Washington, I have found, there tends to be a lot of smoke -- some heat -- and very little fire.

I am hopeful that today we can light a little fire under the issue of rural development. I am delighted that the Chairman of this Subcommittee, Senator Baucus, has chosen to hold this important hearing in Montana, rather than in Washington. Too often the real issues that concern most Americans get lost in the rhetoric.

The revitalization of rural America is an issue that I believe most Americans are concerned about. Even the city folk understand the importance of our rural areas. It is the farmers and ranchers who live here who provide the food that we all eat and the fiber for the clothes that we all wear.

This country has been blessed with an abundance of natural resources that has allowed us to enjoy the highest standard of

living of any country on the face of the earth. We have been permitted to do that because we had strong roots -- rural roots. This country has depended upon its farms, ranches, small towns and communities that have dotted its landscape since the earliest settlers.

I have only been in the Senate a short time, but I have stood on the Senate floor many times to argue rural America's case. The population centers on both coasts continue to boom while middle America--our heartland--suffers. I have pointed out the fact that in many respects the federal government itself is to blame for the decline. Policies made in Washington can have a devastating impact on rural areas. For example, the long-term Conservation Reserve Program operated by the Department of Agriculture has tied many farmers' hands by locking away as much as one-fourth of the productive land for ten or more years.

Synonymous with small towns and rural communities are small businesses, which is the reason we are here today. We are here to ask the people who matter most--those of you who are on the front lines--what we can do to encourage rural economic development. In my view, small businesses are not looking for a government handout in order to survive. Instead they are looking to get the crushing weight of government off their backs so that they can get back to providing employment and serving the needs of rural Americans. Decisions made in Washington -- such as raising the minimum wage, and adding a Section 89 to the tax

code--do more to stifle small business than do economic downturns in the overall economy.

Government can play a positive role in economic development in rural America. I believe that the federal government should offer a helping hand--not a heavy hand--to even out urban-rural inequalitites. Government can move to limit product liability and limit tax reporting requirements that burden small businesses.

Transportation and communication services are one key for rural America. The federal government has made a covenant with all its citizens to provide an adequate system of transportation and communications. Rural business depends on continued access to these vital services. The technology for improving and enhancing them already exists. We just need to make sure that rural areas benefit too.

We are here today to talk about one of the most important aspects of small business development--capital formation. Senator Baucus has introduced a bill, and I have introduced a bill with Senator Boschwitz aimed at giving small businesses more options in this area. We are here today to get your input on what you think might work--we certainly don't have all the answers.

I personally believe that financial incentives must come

from the community in partnership with government at all levels, and in partnership with the businesses already here. Attracting new business to Montana, and keeping existing businesses here, benefits everyone. I believe that capital formation will play an important role in moving Montana forward and in revitalizing rural America.

Montana is a microcosm of what is happening all across America. Our economic growth has been slow and has not kept up with urban areas. But it doesn't have to be that way. We have some of the most beautiful scenery in the world located right here in Montana. The quality of life here is good, and our people are bright, and eager and willing to work. With the right incentives, many businesses, I believe, would be willing to locate in our state.

Let me conclude with that, Mr. Chairman. I look forward to hearing from our witnesses as they provide important insight on how we can achieve the goals of economic development in rural areas.

Thank you.

Senator BAUCUS. Before I begin I'd like to introduce our stenographer, Ione Daniels. I'm going to take a break on occasion to give Ionē a rest.

Let's begin. I'd like to start by introducing the first panel.

Don Peoples, chief executive of Butte-Silver Bow; Eddie Leuthold, Incorporator of the Economic Development Corp. of Yellowstone County in Billings; and Jim Scott, executive vice president of 1st Interstate Bank System of Billings.

We have quite a few witnesses testifying today. For the benefit of all, all your written statements will automatically be included in full in the record, I encourage you to try to please keep it down to 5 minutes apiece. I look forward to a productive hearing.

Don, why don't you begin?

STATEMENT OF DONALD R. PEOPLES, CHIEF EXECUTIVE, BUTTE-SILVER BOW, MT

Mr. PEOPLES. Thank you, Senator Baucus and Senator Burns. Thank you very much for coming out to Montana.

The two bills that I am going to testify on today I think are very important to Montana. First, of course, is the telecommunications bill that has been introduced. The second one deals with capital formation.

First of all, Butte may not be regarded by many folks in Montana as being a rural area, but indeed we are. We're the hub of a seven-county area, and we are very much involved in putting together a Rural Economic Development Program for that seven-county area with Butte as the hub.

We've seen a tremendous decrease in population in Butte and southwestern Montana over the last number of years. Our population has decreased nearly 7 percent since 1980. That obviously gives us very much concern.

The bills that we're talking about here today I think have a tremendous impact on our economic development programs in southwestern Montana.

The first bill I want to address is the Telecommunications Service Act of 1989. That will provide modern state-of-the-art telecommunications services to rural incentives—to rural residents in Montana. And without the incentives that are provided in this bill, I think that the chances of developing a solid telecommunications service in our area are slim or nonexistent.

Let me tell you, yesterday we broke ground in Butte for a very exciting project, and that is a telecommunications project we're doing with U.S. West. It provides digital switching equipment for Butte almost 20 years in advance of when we were scheduled to get it.

We have done that because we have been able to forge a public/private partnership with U.S. West that has allowed us to move forward. There's some mutually beneficial incentives we were able to agree upon in regard to buildings and swaps of lands and sale of land, and we're developing a telecommunications system in Butte based on digital switching that, through satellite hookup, will be available to all of southwestern Montana in the future years.

That is extremely important to us because we're doing a lot of things in southwestern Montana that are based on communications, being able to communicate with one another, giving access to data bases, giving access to economic development activities throughout southwestern Montana.

Can I ask you, I don't know if—think what it would be like to try and do business in Montana, or anyplace in the country, if you're dealing with a multi-party line, trying to transmit volumes of information based on sound business principles if you're tied to a party line. Frankly, that's the situation with many people in Montana.

So what we're looking at is the ability in southwestern Montana to be able to begin communicating with one other in regard to economic development activities. We're developing a seven-county agricultural incubator, and we are now in the process of tying seven counties together to include telecommunications.

We look at the bill that's been introduced by Senator Baucus on telecommunications as vital to our economic development activities in southwestern Montana. Again, as I said, it would be hard to imagine trying to do business anyplace in this county if you had to rely on a multi-party telephone line.

We need to be conducting and transmitting highly sensitive information, and we have to have access to sound telecommunications.

I also ask you to imagine what it would be like to try and live without having access to a 911 number when an emergency arises. For many Montanans that is indeed a reality. So we think that that is a very important part of the economic development activities.

As Senator Baucus has so aptly described time and time again, that telecommunications is the highway of the future for rural America. We must start now to upgrade that infrastructure. The downward trend we've seen in rural areas has to be reversed, and we view the passage of this bill as a major first step.

The second bill that I want to discuss here today is the Rural Access to Capital Act of 1989 and this is equally, if not more, important to the rural areas of southwestern Montana. We know that small businesses have contributed a tremendous amount to the creation of jobs in this country through innovation and productivity that is absolutely essential to the development of our economy.

We know that about 900,000 new jobs have been created in America from independent small business people. However, we find that entrepreneurship is affected by technological change, affected by expansion and globalization of markets, specialization of work skills, and most importantly, by lack of seed capital, and we found that lack of seed capital, at least in our area, is a very inhibiting factor in regard to economic development.

We know about 9 of 10 new small businesses fail within a 5-year period. We're conducting an experiment now in Butte-Silver Bow with a business incubator. This is the only municipally owned and operated business development center or incubator in the country. There are a lot of incubators in the country, but this is the only one that is owned and operated by a local government.

We have found that the greatest inhibiting factor in that incubator is access to capital. And we look at the bill that has been intro-

duced by Senator Baucus as a tremendous advantage, to be able to provide access to capital for small business people in our community.

We have, as I have said earlier, we've seen a tremendous decrease in population, and that decrease in population is a result of decline in the economy, decline in our area of southwestern Montana in mining and of agriculture.

We need to support the development of small business to take the place of the loss of the economy, in many cases of our major producers. We're now getting involved in southwestern Montana in value-added projects, and we look again at this access to capital as critical. We view the legislation in this as critical.

I'll offer one comment that I think is important, that if this bill is to have its intended impact, that the funds need to be allocated to the most rural areas of the country, areas that truly suffer from a lack of access to capital and technical expertise. I think it's important that the funds be distributed on a regional or district basis.

The people making the decisions need to be close to the problem of rural residents, and they have to have the access to the technical expertise.

I also feel that the rural partnership program and the fund that has been created here to help with technical assistance for microbusiness is absolutely essential. We need that technical assistance that would be provided through this bill and to give the rural economies the support mechanisms to begin the road to recovery and economic vitality.

Senator Baucus, Senator Burns, I can tell you here today that I don't think there are any two more important bills you have before you in the U.S. Senate than the ones that you're talking about when we talk about economic development. Telecommunications is the wave of the future. Montana cannot exist without communications. It cannot exist in this modern world of what we call a bi-coastal economy. It's passing us by. We've got to get linked into that bi-coastal economy. Telecommunications will help us do that. It will help us to communicate with the rest of the world.

In regard to the capital access, the capital formation bill that you've introduced, that too is extremely important to Montana's economic development. We need that access to capital. Capital formation is in my view the No. 1 problem in Montana's Economic Development Program, and we certainly need assistance from that.

So I congratulate you for introducing those bills, and I certainly congratulate both of you for coming out to Montana to listen to those of us who are working in the trenches of economic development in the rural economy of Montana.

Senator BAUCUS. Thank you very much, Don.

[The prepared statement of Mr. Peoples follows:]

Senate Small Business Committee
Subcommittee on the Rural Economy
and Family Farming
on Senate Bill 759 and 863

By Donald R Peoples
Chief Executive
Butte-Silver Bow, MT

5-24-89

I want to thank you for the opportunity to speak to you today on two issues vital to the economic health of Rural America - access to Telecommunication Services and Capital. I commend Senator Baucus for coming to grips with the economic plight of rural areas and developing legislation that will help mitigate the problems we face on a daily basis. The committee must also be commended for traveling to Montana, (which is not easy), to hear and see first hand the problems faced by rural Americans.

I am the Chief Executive of Butte-Silver Bow, a community of 34,000 in Southwest Montana. Notably, Montana's fourth largest city. Even though Butte is the regional HUB of a seven (7) county area, it remains rural in nature and experiences the problems endemic to rural economies.

In Southwest Montana, we are slowly beginning to realize that if we are to survive, we must come together and cooperate as an economic unit. Between seven (7) counties, we don't have the population of a major urban city. The seven (7) counties in Southwestern Montana have seen their population decline from 81,000 in 1980 to 76,000 in 1987, a 6.2% decrease. In large part due to the depression in the mining and agricultural industries and the inability of the economies to react and create a climate

conducive to the growth of small business and industry.

Throughout Southwestern Montana and in fact, Montana as a whole, we have had to watch businesses move to urbanized areas or simply wither and die from a lack of capital, communication isolation and/or lack of adequate infrastructure. People with good ideas have moved in order to find financing for their idea. The economy is in a downward spiral.

The bills introduced by Senator Baucus are a first major step in rectifying the problems by providing greater access to capital for economic development projects and by providing incentives for telecommunications companies to upgrade facilities and technology.

The "Rural Access to Telecommunications Services Act of 1989" provides essential incentives through low-interest rate loans to co-ops and other telephone companies to provide state-of-the-art telecommunications services to rural residents. Without incentives, the chances of rural areas receiving these services are slim or non-existent.

Over a year ago, we recognized the need for digital switching if Butte was to attract high tech businesses. Discussions with the telephone provider indicated that Butte was not scheduled to receive digital switching for 15-20 years. This was totally unacceptable, we needed this technology now to compete in today's world. By working hand in hand with the provider, we formed a Public-Private Partnership that made the conversion to digital switching more attractive.

U S West broke ground yesterday on a new facility in Butte that will give Butte's residents the advantage of digital switching. The system offers the most advanced telephone transmitting available anywhere in the world. But it would not have happened without incentives.

As importantly, U S West will be capable of satelliting to other areas off an electronic switch, thus extending digital switching technology to the outlying areas. This bill may provide the necessary incentive to encourage them to bring all of Southwestern Montana into the age of technology.

The importance of being able to pass documents through telecommunications is something most of you take for granted. But, imagine not being able to do so and trying to compete effectively with businesses that have that capability. Imagine trying to conduct highly sensitive business negotiations on a multi-party telephone line. Imagine not having access to a 911 number when an emergency arises. For many rural Montanans, this is reality.

Southwestern Montana has a new Agricultural Incubator located in Dillon, Montana (the first in the State) that will assist agricultural businesses in the seven (7) county area during the critical start-up phase. It is essential that incubator staff have access to state-of-the-art telecommunications technology if they are going to assist these businesses and give them access to State, National and International agencies, organizations and markets. If these businesses are to survive and create jobs they must have modern telecommunications systems.

Through Western Montana College and Headwaters Resource and Development Council, some steps have been taken. The development of Big Sky Telegraph is an innovative system that links rural areas through computer modems and also provides access to a data base. But, this takes money - money that in a depressed economy is hard to come by.

Nor can we overlook the importance of access to telecommunications services to our rural schools and health facilities. Without this access, the services provided by these facilities remain inferior to those provided in urban areas. Rural America deserves better.

As Senator Baucus has so aptly stated telecommunications is the highway of the future for rural America. We must start now to upgrade that infrastructure. Lack of population and geographical remoteness are no longer reasons to remain isolated from Modern Technology. The tools are available but we must be able to offer companies incentives to provide them. The downward trend in the rural areas has to be reversed and passage of this bill is indeed a major first step.

The second bill we are here to discuss today, the "Rural Access to Capital Act of 1989", is equally, if not more, important to Rural Areas of Montana.

Small businesses' contribution to the economy in the terms of job creation, innovation and productivity, is well documented. Approximately 900,000 new jobs generated annually in America come from independent small business. However, entrepreneurship is effected by technological change, expansion and globalization of

markets, specialization of work skills and most importantly by a lack of seed capital which often inhibits growth and stifles innovation at the first critical stage. Nine out of ten small businesses fail during the firm's first five (5) years of operation due to general management deficiencies and lack of capital.

Butte's economy was hit and hit hard in 1983 when the copper industry suspended all its mining activities in Butte. Secondary support businesses immediately followed suit and closed their doors. Butte was left with high unemployment and an environment not conducive to economic growth.

However, Butte's refused to accept economic defeat and set out to develop economic strategies that would have a positive effect on the economy. Recognizing that small business development was our best hope for success, the Business Development Center (Incubator) was established in 1986 to assist entrepreneurs in starting new businesses and helping existing small businesses to expand and to promote the development of new technologies for the advancement of Montana's basic industries. The incubator has produced 83 new jobs in two and one/half (2 1/2) years, however, financing for the small start-up businesses has been extremely difficult to obtain. We've seen entrepreneurs cash in life insurance policies and life savings, mortgage assets, borrow from friends and relatives and still not have access to adequate capital. Clearly, there is a pressing need for seed capital - - equity capital that is readily available to viable firms. We know of one agricultural firm from an outlying region that operates out of our incubator (and we're delighted to

have them), but they are forced to drive 140 miles a day because they could not get financing and technical assistance in their more rural area.

As I stated earlier, the rural counties in Southwestern Montana have seen a 6.2% decline in population since 1980. The economy of the area is in dire need of start-up and equity capital and technical assistance for businesses. Resource producers are beginning to see the advantages of adding value to their products before they are shipped out of state or out of the county. But that value adding can not happen without access to capital and technical assistance.

The "Rural Access to Capital Act of 1989", identifies and addresses the capital and technical assistance gap which exists in rural areas. It begins to establish a foundation for rural businesses to access. It provides technical assistance to the non-entrepreneur with a good marketable idea that can positively impact the rural economy. This act provides a service desperately needed by those of us who live in rural communities and it creates opportunities for our young people who are often forced to move to urban areas to find employment.

I feel it is extremely important, if this bill is going to have its intended impact, that the funds be allocated to the most rural areas of the county, areas that truly suffer from the lack of access to capital and technical expertise. Montana certainly fits that definition being the fourth largest state with a population of a little over 800,000. It is important that the funds be distributed on a regional or district basis. The people

making the decisions must be close to the problem and the rural residents must have ready access to their technical expertise as well. A grass roots approach will ensure a strong public/private partnership with local officials, bankers and rural business people.

The Rural Partnership Fund, the Microbusiness Loan Fund and the Microbusiness Technical Assistance Fund provide needed elements for innovative rural entrepreneurs and give the rural economies support mechanisms to begin the road to recovery and economic viability.

Barriers to economic development in rural areas are many and varied and I congratulate the members of the Committee and Senator Baucus for taking steps to break down those barriers. These two bills are important first steps. I would urge passage of them and would hope they contain the measures to ensure they truly benefit rural residents.

Senator BAUCUS. Next Ed Leuthold of the Economic Development Corporation of Yellowstone County.

Eddie.

STATEMENT OF EDDIE LEUTHOLD, INCORPORATOR, ECONOMIC DEVELOPMENT CORP. OF YELLOWSTONE COUNTY, BILLINGS, MT

Mr. LEUTHOLD. Thank you and good morning, Senator Baucus and Senator Burns. Thank you for this opportunity to speak about Montana's economy.

As we were gathering, many of us were visiting a little bit about how beautiful Montana is in the spring, for that matter throughout the entire year. Seems to me only one thing could make it prettier and that is that if about every 20 miles, there was a nice little high-tech plant sitting along the interstate. That would change lots of things for a lot of Montanans and still retain our beauty.

My name is Eddie Leuthold, and I am a lifetime resident of Montana. My formal education is in economics, and for the last 30 years I have actively been involved in Montana ranching, banking, real estate, and local government.

At this time, I'm also the incorporator of an SBA Certified Development Company which is dedicated to doing everything possible to make capital available to small businesses and to improve the overall economy of our area.

Today, Senators, I especially speak in favor of your new legislation aimed at encouraging capital formation in rural areas entitled the Rural Access to Capital Act of 1989.

First, let me clarify that when I talk about capital, what I mean is money. It takes money to do research, build facilities, and employ people. In America money and people attract each other, so most of our Nation's capital is located where our people are located and vice versa. For this reason throughout our Nation we have a unique phenomenon in which some regions are suffering because of too much population, and some are suffering because of too little capital.

Senator, your bill works to solve both of these problems, overpopulation and undercapitalization, by moving capital out of the cities and into the open spaces of America, and I'm confident that your idea will work, Senator, and that the people will go where the money goes.

I could speak about all the money that has flowed through our state from our rich gold, copper, chrome, sapphire, platinum mines as well as from our vast forests and ranches. Unfortunately, most of this money flowed right out again to New York, Chicago, Denver, Minneapolis, and Seattle, where it ended up in the checking accounts of large corporations and trust accounts of wealthy stockholders.

I sometimes compare in my mind western Montana with the homeland of my forefathers, Switzerland. The beautiful mountains and lakes of the two areas are very similar. They are also similar in size and both are landlocked. Yet Switzerland has over 20 times the population of western Montana and yet is considered to be one of the finest places in the world in which to live.

I think of western Montana as the Switzerland of America. There's really only one difference and that is capital. Switzerland's capital has come from a highly developed financial system which attracts money from all over the world and re-invests much of it right back into those small businesses that dot the Swiss countryside.

Well, now times are a-changing, and movie stars are discovering that it's just as much a pleasure to live in the mountains of Montana as in Beverly Hills, California. And with excellent transportation and communication, it doesn't take much longer for them to get to where they work.

There are no longer any good reasons why Montana should not be the home of prosperous companies, well-paid workers, profitable investments. Senator, your bill to provide greater access to investment capital is timely and vital to our State's future economic development.

For several decades the U.S. Congress through the Small Business Administration has worked to provide badly needed capital to low populated areas like Montana. We are so starved for capital that if our banks could not sell loans to investors in the major cities, there would hardly be a home loan or business loan made in Montana today.

The Montana SBA office and Montana's banks have done an excellent job in using SBA resources to provide badly needed capital for Montana businesses. However, much more needs to be done and, Senator, your proposed two lending programs for SBA will be very beneficial.

When I was a banker, our bank was a leader in making SBA loans, and there are many success stories about businesses that would have never gotten off the ground if it hadn't been for an SBA guarantee.

However, making business loans is a skilled profession, and only the largest banks can afford the personnel or absorb the overhead necessary to counsel and finance small and marginal businesses.

For this reason the addition in 1980 of the SBA Certified Development Company is a very important part of assisting banks and borrowers alike in packaging and servicing SBA loans.

The Certified Development Company consists of business and professional people especially knowledgeable in SBA programs, who can serve as a real help in explaining the programs, in giving direction on financing alternatives.

As you know, CDC's have become the right arm of SBA in providing marketing services, credit analysis, loan counseling, credit approval, and funding sources readily available to assist the needs of small business clients.

Over 200 Certified Development Companies throughout America have currently invested over $1 billion in economic development loans, generating over a hundred thousand job opportunities.

Senator, your proposal to authorize CDC's, to include the new rural partnership fund, the microbusiness fund as well as the 7(a) Loan Program, provides a badly needed vital link between SBA and the capital-short regions of our Nation.

Therefore, I heartily recommend approval of your proposed legislation which is specifically designed to encourage the spread of prosperity to all parts of our Nation.

Anything that you, Senator, and your associates in the U.S. Congress can do to provide incentives in our Nation to move capital from the cities to the wide open spaces will improve the living condition of all Americans.

Senator BAUCUS. Thank you very much, Eddie. Very forceful statement. We appreciate it.

[The prepared statement of Mr. Leuthold follows:]

PRESENTATION ON SENATOR BAUCUS'

RURAL ACCESS TO CAPITAL ACT

LIVINGSTON, MONTANA

MAY 24, 1989

Good Morning, Senator Baucus:

My name is Eddie Leuthold. I am a lifetime resident of Montana. My formal education is in economics and for the past 30 years I have actively been involved in Montana ranching, banking, real estate, and local government. At this time, I am currently the incorporator of an SBA approved Certified Development Company which is dedicated to doing everything possible to make capital available to small businesses and to improve the overall economy of our region.

Today, Senator , I especially speak in favor of your new legislation aimed at encouraging capital formation in rural areas entitled the Rural Access to Capital Act of 1989.

First, let me clarify that when I talk about CAPITAL I mean MONEY. It takes money to do research, build facilities, and employ people.

In America money and people attract each other. So most of our nations capital is located where our people are located and visa versa. For this reason throughout, our nation we have a unique phenomenon in which some regions are suffering because of over population and other regions are suffering because of shortage of capital.

Your bill works to solve the suffering of both, over population and under capitalization, by moving capital out of the cities and into the open spaces of our area. I am confident that your idea will work and that the people will go where the money goes.

I could speak about all the money that has flowed through our state from our rich gold, copper, chrome, sapphire, and platinum mines as well as from our vast forests and ranches. Unfortunately most of the money flowed right out again to New York, Chicago, Denver, Minneapolis, and Seattle where it ended up in the checking accounts of large corporations and the trust accounts of wealthy stockholders.

I sometimes compare in my mind western Montana with the homeland of my forefathers, Switzerland. The beautiful mountains and lakes of the two areas are very similar. They are also similar in size and both are landlocked. Yet Switzerland has over 20 times more people than western Montana and still enjoys the reputation of being one of the best places in the world to live. I think of western Montana as the Switzerland of America. It only lacks one thing - CAPITAL.

Switzerland's capital has come form a highly developed financial system which attracts money from all over the world and reinvests much of it in the small businesses that dot the Swiss countryside.

Now times are changing, and movie stars are discovering it's as much a pleasure to live in Montana as in Beverly Hills and with excellent transportation and communication it doesn't take much longer to get to

where they work. There are no longer any good reasons why Montana should not be the home of prosperous companies, well paid workers and profitable investments. Senator, your bill to provide greater access to investment capital is timely and vital to our state's future economic development.

For several decades the U. S. Congress through the Small Business Administration has worked to provide badly needed capital to low populated areas like Montana. We are so starved for capital that if our banks could not sell loans to investors in the major cities there would be hardly a home loan or business loan made in our state today.

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As you know CDC's have become the right arm of the SBA in providing marketing services, credit analysis, loan counseling, credit approval, and funding sources readily available to assist the needs of small business clients. Over 200 Certified Development Companies throughout America have currently invested over $1 Billion in economic development loans generating over 100,000 job opportunities. Senator your proposal to authorize CDC's to include the new rural partnership fund, micro business fund, as well as the 7a loan program provides a badly needed vital link between SBA and the capital short regions of our nation.

Anything that you, Senator, and your associates in the U. S. Congress can do to provide incentives in our nation to move capital from the cities to the wide open spaces will improve the living conditions of all Americans. Therefore, I heartily, recommend approval of your proposed legislation which is specifically designed to encourage the spread of prosperity to all parts of our nation.

Senator BAUCUS. Next, Jim Scott.

STATEMENT OF JAMES SCOTT, EXECUTIVE VICE PRESIDENT, FIRST INTERSTATE BANKSYSTEM, BILLINGS, MT

Mr. SCOTT. Thank you, Max, and Conrad. Also I'd like to thank you for conducting the hearing here in Montana on this important subject.

I'll skip the first couple of paragraphs of my prepared statement, introducing and describing the problem—I think you both described the problem pretty well—and start saying the answer for rebuilding our economic base is obviously complex. There is no one answer. What is needed is a broad set of initiatives by both the public and private sectors to respond to the changing environment.

The keystone of this economic development should be to build on our strengths: our workforce, our quality of life and our resources. We also need to correct our weaknesses.

One of the weaknesses that has been suggested is the lack of investment or debt capital. As a banker, I feel it must be pointed out that there are varied types of capital and degrees of risk and return expected.

Commercial banks are primarily in the business of providing short- and intermediate-term credit to businesses and individuals. While they are expected to take some risk, the money they lend belongs to their depositors. A bank's primary purpose is to provide a stable and reliable system of monetary intermediation for its community.

In the past 5 years, as our economy has changed, Montana's banks have made loans which turned out to have more risk than was anticipated. The health of the banking system reflects the overall economic climate.

In the past 5 years Montana's banks have had nearly the highest percentage of nonperforming loans to total assets as well as net charge-offs of loans of all banks in the country. In the years 1984 through 1988, total charge-offs totaled over $55 million. This is not third world debt or leveraged buyouts. These are losses on the main streets, farms, and ranches and in the families of fellow Montanans.

Is there a shortage of risk capital in rural Montana? Yes.

Do we need venture capitalists, seed capital funds and other sources of risk capital? Yes.

But our rural communities are far removed from the Silicone Valleys where that type of capital is usually found.

Can the State's existing system of financial institutions play a role in providing risk capital after suffering the losses of the past few years? I think so, if a private or public partnership is created as is suggested in S. 863.

The Small Business Administration has been an important facilitator of credit to Montana businesses over the years. The SBA Loan Guarantee Program has allowed banks to make long-term fixed rate loans for capital purchases. By selling the guaranteed portions, banks avoid the interest rate risk as is dictated by sound banking principles.

SBA loan guarantees have also allowed banks to slightly modify underwriting standards as to capital and collateral if other factors are present. And, very importantly, the SBA has established a smooth and efficient operating relationship with local lenders.

The proposal to use the SBA to help rural communities meet credit needs is good, I believe. The public and private rural partnership fund could allow capital to be invested in businesses deemed to be of significant enough value to local communities to warrant preferential financing outside the risk tolerances of normal lending.

One suggestion I would make is to keep the actual lending relationship between the businessman, the entrepreneur, and the financial institution.

The local economic development agency or the CDC also has a role to play in ensuring that a proposal meets the community's needs and provides overall economic benefits.

The SBA has a role in providing the necessary risk funds or terms to the lender so that it can extend its underwriting guidelines and make a loan it would not normally make. The actual lending relationship, however, and the administration of loans are best handled by the financial institutions. So structured, this fund could be administered within the existing mechanisms of the SBA lending institutions and qualified economic development agencies.

The Microbusiness and Technical Assistance Fund concept provides an especially important and necessary source of capital to rural Montanans. While statistics continue to show that most new job growth comes from companies with few employees, both the capital to start a new venture and the technical skills necessary to turn a good idea into a successful business venture are difficult to acquire.

For a banker whose primary goals are to earn a return for the shareholder and to protect the depositors' funds, providing the $5,000 to $25,000 loans to entrepreneurs to create new businesses has two handicaps.

First, the interest earnings on these small loans compared to the time and administrative costs involved make them unprofitable in the best of circumstances.

Second, while an entrepreneur may have a great idea for a needed product or service, they often lack the business skills necessary to be successful.

The intent of the Microbusiness Loan and Technical Assistance Fund is to address this need, and I wholeheartedly support the concept. In this area, too, I would make the suggestion that the lending relationship be maintained between the private financial institution and the entrepreneur.

In Montana we have an excellent example of how a microbusiness encouragement program can work. In its first 1½ years of operation, the Missoula Community Business Incubator has successfully assisted over 100 entrepreneurs through a 13-week training program, exposing them to the skills necessary to run a small business.

When I last spoke to its director, approximately 80 percent of those people had gone on to actually establish businesses.

The incubator has also established an excellent relationship with a Missoula bank where it keeps on deposit grant monies received to guarantee loans for its clients.

When a entrepreneur finishes the technical assistance and decides to make the personal commitment to actually enter into business, the incubator helps him to complete the necessary loan documentation in a format acceptable to the bank. The incubator funds are used to guarantee all or part of the loan which must be less than $25,000.

The bank is able to provide credit to microbusinesses with little administrative cost or risk. The bank has also made contact with a business that can grow into a valued customer. The entrepreneur receives the technical training and capital to turn his idea into a successful venture. The incubator, which is part of the community's overall economic development plan, retains a client for future counseling but is out of the ongoing administration of the lending activity.

In conclusion, I would like to thank the Senate and the Small Business Committee and especially our Montana Senators for attempting to develop policy and legislation to address the economic development needs of Montana and other rural States.

Drastic changes in the world and national economy have caused financial and social upheaval. However, through building on our strengths, addressing our weaknesses, working cooperatively among Federal, State and local governments and through partnerships between private and public sectors, we will regain prosperity and competitiveness for the future.

[The prepared statement of Mr. Scott follows:]

Senator Baucus and Senator Burns,

My name is Jim Scott. I live in Billings. I am a banker, businessman and have been active in the Billings Chamber of Commerce where I was Chairman of the Board in 1987-1988. The company with which I am affiliated, First Interstate BankSystem of Montana, is a Montana owned banking company with offices in Billings, Missoula, Hardin, Colstrip and Miles City. The economic health of our communities and State is critical to our company and is a subject I have spent substantial energy the past several years attempting to understand.

There is no shortage of statistics or rhetoric which demonstrate the difficulties that the Montana economy has faced during the 80's. Loss of jobs and population, erosion of personal income and tax base as well as social distress indicators all prove what all of us who continue to live here and love our state feel every day.

It is also becoming generally accepted that the global ecomony is undergoing structural changes which will keep our economy from mirroring the prosperity we saw in the past. International competition and the growing importance of information and services have been hard on our resource based state economy. These are changes that seem irreversible.

The answer for rebuilding our economic base is obviously complex. There is no one answer. What is needed is a broad set of initiatives by both the private and public sectors to respond to the changing environment. The keystone of this economic development should be to build on our strengths: our work force, our quality of life and our resources. We also need to correct our weaknesses.

One of the weaknesses that has been suggested is the lack of investment or debt capital. As a banker I feel it must be pointed out that there are varied types of capital and degrees of risk and return expected.

Commercial Banks are primarily in the business of providing short and intermediate term credit to businesses and individuals. While they are expected to take some risk, the money they lend belongs to their depositors. A bank's primary purpose is to provide a stable and reliable system of monetary intermediation for its community.

In the past five years as our economy has changed, Montana's Banks have made loans which turned out to have more risk than was anticipated. The health of the banking system reflects the overall economic climate. In the past five years Montana's banks have had nearly the highest percentages of nonperforming loans to total assets as well as net chargeoffs of loans of all banks in the country. In the years 1984 through 1988 total chargeoffs totaled over 55 million dollars. This is not third world debt or leveraged buyouts. These are losses on the mainstreets, farms and ranches and in the families of fellow Montanans.

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The Small Business Administration has been an important facilitator of credit to Montana businesses over the years. The S.B.A. loan quarantee program has allowed banks to make long term fixed rate loans for capital purchases. By selling the quaranteed portions, banks avoid the interest rate risk as dictated by sound banking principals. S.B.A. loan quarantees have also allowed banks to slightly modify underwriting standards as to capital or collateral if other factors are present. And very importantly, the S.B.A. has established a smooth and efficient operating relationship with local lenders.

The proposal to use the S.B.A. to help rural communities meet credit needs is good, I believe. The Public and Private Rural Partnership Fund could allow capital to be invested in businesses deemed to be of significant enough value to local communities to warrent preferential financing outside the risk tolerences of normal lending.

One suggestion I would make is to keep the actual lending relationship between the entrepreneur and the financial institution. The local economic development agency has a role to play in ensuring that a proposal meets the communities needs and provides overall economic benefit. The S.B.A. has a role in providing the necessary risk funds or terms to the lender so that it can extend its underwriting quidelines and make a loan it would not normally make. The actual lending relationship, however, and the administration of loans are best handled by the financial institution. So structured, this fund could be administered within the existing mechanisms of the S.B.A., lending institutions and qualified economic development agencies.

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For a banker whose primary goals are to earn a return for the shareholder and to protect the depositors funds, providing the $5,000 -$25,000 loans to entrepreneurs to create a new business has two handicaps. First the interest earnings on these small loans compared to the time and administrative cost involved, make them unprofitable in the short term under the best of circumstances. Secondly, while a entrepreneur may have a great idea for a needed product or service, they often lack the business skills necessary to be successful.

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In conclusion I would like to thank the Senate and the Small Business Committee and especially our Montana Senators for attempting to develop policy and legislation to address the economic development needs of Montana and other rural states. Drastic changes in the world and national economy have caused financial and social upheaval. However, through building on our strengths, addressing our weaknesses, working cooperatively among the federal, state and local governments and through partnerships between the private and public sectors, we will regain prosperity and competitiveness for the future.

Senator BAUCUS. Thank you all very much.

There are some people who claim that there really isn't much of a capital shortage problem for rural business. They claim that the Government should not be in the business of providing special help to businessmen and businesswomen who choose to live in rural communities, as opposed to urban communities.

I'd like each of you to address that point if you can, please. Do rural businesses have special problems in getting financing that doesn't exist for more urban businesses?

Mr. PEOPLES. Well, first of all, I think that the need for capital is so important.

Senator BAUCUS. You might just give some examples if you would please, Don, as chief executive.

Mr. PEOPLES. We've seen entrepreneurs in our Business Development Center cash in life insurance policies. We've seen them do mortgage, second mortgages on homes. We've seen them borrow from friends and relatives.

And we've got one example of a person that drives 140 miles a day to do business in our Business Development Center because there is access to—limited access to capital. He didn't have it in his rural area. That person today is being very successful in what he's doing. The fact of the matter is that he's got a 140-mile-a-day drive to get financing and technical assistance that is not available in that rural area.

I think that is a classic example of the need in Montana for that. And call it what you may, but there's a lot of programs in this country where the Federal Government is subsidizing people in one way or another. I can't think of a more important way to provide assistance to people to help them pull themselves up by the bootstraps than helping them in the area of economic development, give them access to capital and to provide access to technical assistance they don't have in the rural areas. There's no way that that person who is driving 140 miles a day, 70 miles each way to the Butte Development Center, could survive.

Senator BAUCUS. So you see it as larger than a rural problem?

Mr. PEOPLES. Well, I see it as a rural problem, but I guess when we start talking about rural problems in Montana, let's face facts, Montana is rural. OK? I'm talking about Butte being a community of 35,000 people, but when we look at our area, we're a rural area in Montana, the——

Senator BAUCUS. Because we're so far away?

Mr. PEOPLES. The statistical area says 50,000 people. We're far from that. We need a seven-county area.

There's an example in Lewistown, MT, where they developed a six-county economic development unit in that area, and there's less than 30,000 people in that six-county area. So I think when you're talking about Montana, you're talking about a rural economy.

Senator BAUCUS. Eddie or Jim, any comments?

Mr. LEUTHOLD. I'd be happy to.

I think it has to do with my comment that money attracts people, and people attract money. Now if you wanted to borrow $1 thousand, Senator, and I had $10,000, and Jim's got $1 million, which one of us do you think you'd come to first? And which one of us do you think would be the quickest to loan it to you?

Well, it happens that the $1 million is in New York, and I'm here in Montana. And so the best place for me to borrow $1 thousand is in New York or Chicago or Denver because that is where the capital is. That's where the people that have excess funds are looking for good investments.

You can search Montana high and wide and find very few people or institutions that feel they've got more money than they know what to do with, and if you're looking for investments, it's just not here. It's in the big cities.

So when you want money, you go to the big cities. And that's where the people go.

And so if somebody in Montana wants to borrow $1 thousand, you can get it a lot easier from somebody that's got $1 million than somebody that's got $10 thousand, and unfortunately Montana is capital short, and most of our people are in the $10,000 category, including our banks.

When they make a $1 thousand loan, they've got to try to replenish it as quickly as they can, sell that loan to New York or Chicago or Minneapolis or get their money back somehow so they can loan it again for a car or furniture or for something else worthwhile.

So there's just not enough money to meet the demands and so our demands are resold, money is replenished and hopefully we can find additional, but we need renewed sources where we can find people who are looking for a good investment and it takes a little incentive sometimes perhaps.

Senator BAUCUS. So again it's a question of distance?

Mr. PEOPLES. Distance and availability, and it takes some incentives to make up the difference. The person that can drive, like John says, 100 miles to go in and negotiate a business loan, large business loan, it's a lot different than somebody that walks across the street.

Senator BAUCUS. Jim.

Mr. SCOTT. I'd say you posed a difficult question. I think that capital in general flows fairly freely and will tend to go to where the deals exist.

I think in this legislation there are at least three issues. And one—technical assistance, I think Montana's communities—and there I agree with Don. We're all rural communities in Montana.

In Montana the assistance, the technical assistance to provide entrepreneurs and especially in the small towns, the business skills to run a successful business is needed. I think the microbusiness part of this legislation, that's a type of capital—when you say "capital flows freely," that's a type of capital that doesn't flow very freely.

As I said, it's hard to—capital flows because of profits, and there, for capital people that's not a profitable business. I think some involvement from the Government is obviously justified to stimulate that very important source of capital.

In the other fund, I think we need to be very careful if we interfere, as we interfere with the free flow of capital, but I think that the changes that have gone on in our State and in our rural communities might cause us to take a look at, are there opportunities where, because of circumstances, that a business needs a special

type of assistance, and it is so important to a community that needs some certain type of assistance to make it more viable.

But again I think that it's very important that when those decisions are made, they include the qualified people making them, and the SBA and qualified lenders and the qualified economic development agency because there probably, there are stories of how those well-meaning efforts have not ended up with the best results.

Senator BAUCUS. Thank you. Conrad.

Senator BURNS. I guess I have three questions here. I was interested in your comment, Mr. Leuthold, and I want to congratulate you for forming your Certified Development Corporation with the SBA. I think the Boschwitz bill sort of goes along that way, that we'll change some priorities in SBA without increasing any expenditure of funds. We're just going to retarget some funds toward organizations like yourself.

The inability for our banks to make potentially risky loans here in Montana is a problem. I don't say that critically. I mean I realize that all good business situations have to have capital and collateral and sometimes character. They tell me that character has sort of gone out of it anymore, but nonetheless, I'm wondering as a former banker, if you'd spell out obstacles that you see that can be addressed, especially in those potentially risky loans and where those obstacles are coming from mostly?

Mr. LEUTHOLD. It's a matter of supply and demand of funds, and as Jim Scott has mentioned, the range of capital needs go from very risky to very little risk.

You can say that if you're advancing capital to the Chrysler Corporation, for example, very little risk is involved. That's an easy deal to do. And banks do it every day.

By the same token, you can consider the possibility of the capital needs of a young person just graduating from college that wants to start—you have a computer programming service, and now there are a lot of risks involved there.

Again it goes back to the matter of who's got $1 million, and who's got $10 thousand? And the fellow that's got $10 thousand will put his money with Chrysler, and the fellow that's got the $1 million says, "I'll put $10 thousand with Chrysler and $10 thousand with General Motors, and I think I'll give $1 thousand to this kid down at the college. I've got enough to spread it around a little. I can take some risk."

And whether it's an individual or whether it's a financial institution, if you have excess funds available, then you can be more creative in what you can do with financing, but if funds are tight, you've got to be very careful with what you do with it.

So what we're looking here for through the rural access to capital is anything that will facilitate an added incentive to move more capital toward rural areas would be beneficial to new businesses and existing businesses in those areas. And once that seed is planted, once that little plant is started, then our people graduating from college will have a place to go to work.

Right now our best talent, as you know, is going to where the capital is. And so we have to transplant some of that capital back by providing a little incentive for—the capital isn't in Montana. It's got to come from someplace else.

Senator BURNS. We are a resource-based State.

Mr. LEUTHOLD. Tremendous natural resources.

Senator BURNS. And you say our money is flowing out of the State. Shall we change our banking regulations?

Mr. LEUTHOLD. Well, I think our banks are doing a fine job with the amount of money they have available. They're utilizing the funds that are available.

We need an added incentive to induce capital that is lodged in large institutions around the world to find an extraordinary reason to come to Montana. And the SBA has been doing that for a long time by offering guarantees. Now we're offering technical assistance.

And those are steps in the right direction, but we need to induce people with funds around the world to find reasons to want to put it into Montana rather than into New Jersey or into Southern California.

Senator BURNS. Mr. Scott, would you like to take a shot at that? We have our money flowing out of the State and we're a resource-based State. In other words, we produce new money. New money comes in.

They say, "OK. Then we got paid for our product, yet we don't have any venture capital or capital on hand."

And as Mr. Leuthold says, it flows out. Do we need to change our banking regulations where they cannot move that money like they do now?

Mr. SCOTT. Conrad, I guess I would go back to what I said before. I think that capital flows freely, and yes, there is capital flowing out of the State. It flows out of the State, but there's capital flowing into the State at the same time.

Eddie mentioned through the SBA Guaranteed Loans and through Fannie May and Freddie Mac and other Government agencies Montana lenders are able to make loans in Montana and sell those loans out of State. That brings capital to Montana. I think that the reason that capital doesn't flow into Montana as fast as we'd like it is because in general I think they haven't seen the profitable deals, the same number of profitable deals.

I mean venture capitalists, you look at the concentration of venture capitalists there in places like the Silicone Valley and North Carolina and the technical area, and Route 105 in Massachusetts, that's where the educational institutions exist. That's where the new entrepreneurs have been.

We need to do what we can to help create those types of opportunities to take place in Montana. I think this type of legislation would assist that, but there's other things that we need to do as well. Changing the banking laws and trying to artificially interrupt the capital flow would probably not be the right way to do it.

Senator BURNS. Don, while I've got you, along that line, what's your feeling about people giving nonbank loans, in other words, Government making direct loans?

Mr. SCOTT. I'm not really familiar with that. There haven't been a lot of those that I'm familiar with in Montana.

My understanding is those have not been as successful as the guaranteed loans, the loans where the SBA will use its guaranty and go through different financial institutions. There may be some

in this type of legislation that may be able to provide more than guarantees, or different—more stimulation to get good things to happen without having the Government make direct loans.

I think, Conrad, the history and record of direct loans has not been as good as going through just existing financial institutions.

Senator BURNS. Don, your business incubator over there, for economic development, do you want to expound on that a little bit? Because I see where Bozeman is starting one now, and do you want to expand on the importance that that thing has had to the City of Butte and to southwestern Montana?

Mr. PEOPLES. Our incubator is just beginning its third year of operation. As I indicated in my testimony, it's the only owned and operated, municipally owned and operated incubator that we know of.

There's a lot of incubators in the country. The one in Missoula that Jim referred to. However, that one in Missoula is not run by a city or a county.

The incubator in Butte is run by the city and county. We put together probably—we took an abandoned vacant school that we got for $1 from the Roman Catholic diocese of Helena, had an appraised value of $200,000. We parlayed that $200,000 value as matching funds for an EDA Grant of $600,000, and then we were able to attract another $200,000 of capital, local capital for that facility.

So we took $1 essentially that we started out with and parlayed that into a $1 million project.

The facility has been operating 2 years. It provides a home for small business people to begin their operation. It provides limited access to capital, and I want to emphasis that: Limited access to capital. It provides technical assistance to the fledgling entrepreneurs that come into that facility.

It provides amenities that folks need to succeed in small business, such as FAX machines, copy machines, conference rooms, and telephone answering service.

We provide technical experience through the association of local accountants. The bankers provide assistance to the people in the development of their plans, and this incubator has been in operation, as I indicated, now 2 years, and there have been 19 companies have started a business in that facility.

To this point in time, no one has failed.

We have graduated three businesses out of the incubator into other buildings in town, and we have created nearly 100 jobs in that facility in the last several years—in the last 2 years. We view it as an extremely exciting project and I think it's the beginning of incubators in the State of Montana.

As Jim indicated and you indicated, Conrad, other folks in Montana are now beginning to think about incubators. It's been an extremely exciting, extremely successful experiment in economic development, the use of the incubator concept.

Senator BURNS. Thank you very much. I appreciate you all taking the time to come over here today. I realize you had some miles to travel, and I'm appreciative of that, so thank you very much.

I apologize again for being 5 minutes late.

That's all the questions I have, Mr. Chairman.

Senator BAUCUS. Don, please describe for us low important digital switching is to Butte and southwestern Montana.

It's clear that each year more and more information is going to be transmitted electronically. It's an inevitable trend around the world and a real opportunity, I think, for rural America.

I wonder if you can give some examples of how important state-of-the-art telecommunications services is for economic development?

Mr. PEOPLES. What we find here today is, our comments today primarily have been directed toward S. 759, or S. 863 is the access to capital bill, but telecommunications is extremely important. We began recognizing that we had a problem, we feel, with telecommunications in the last 2 years.

One of the first things we looked at——

Senator BAUCUS. What was the problem?

Mr. PEOPLES. People were not able, our businesses in Butte, our high-tech businesses such as Mountain States Energy and others were not able to transmit large volumes of information at rapid speed.

That capability exists in Bozeman; it exists in Missoula; it exists in Helena; it exists in Great Falls because those are communities that have digital switching.

Our high-tech industries in Butte were not able to do that, and we saw slowly but surely many of the high-tech opportunities that we had coming to Montana were beginning to look at Bozeman rather than Butte. And one of the reasons why they were looking at Bozeman or looking at Missoula rather than Butte was the fact that we did not have digital switching capacity in Butte.

We talked to U.S. West about it and they indicated that we were not scheduled to have digital switching in Butte for probably the next 20 years.

We began putting together a public-private partnership with U.S. West that allowed U.S. West access to some property in Butte.

In return for that we got the, we purchased the U.S. West building that we're going to convert into a library. We were able to convince U.S. West that the digital switching made sense, and there was a need for digital switching in Butte.

And we broke ground yesterday for that facility. We can now satellite to the various communities in southwestern Montana where they, too, will have access to digital switching, so high-tech industries can locate in southwestern Montana, utilizing that digital switching and be able to transmit large amounts of information at rapid speed anywhere in the world. We look at it as absolutely essential.

The number of opportunities that I looked at personally were numerous, that Butte was not competitive unless we had digital switching. Those range all the way from things that are associated with Mountain States Energy and MERDI and some of the other activities we had in Butte that we just simply were not going to see those developed.

Senator BAUCUS. The point is that Butte is larger than some other Montana communities. Your size made it possible for you to

donate the land or acquire the building to put together an agreement with U.S. West to get digital switching more quickly.

Smaller communities, on the other hand, may not be able to put together such a package.

Mr. PEOPLES. That is absolutely correct.

Senator BAUCUS. Which means they're left out in the cold.

Mr. PEOPLES. That is absolutely correct, Senator, and we looked at our abilities to be able to work with U.S. West—and I must tell you that we found U.S. West to be exceptionally cooperative in working with us, and we worked out a mutually beneficial arrangement on land and where we purchased the building from them, and so forth.

But that capability and those opportunities don't exist in a majority of the land space in Montana. It existed in Butte. We have a very aggressive Economic Development Program in Butte. We were able to put things together.

When you go to many places like Culbertson, MT or go up to Eureka and someplace else, that capability is not there.

Senator BAUCUS. That's right. Take a community like Culbertson or Bainville. The high school there may not be able to teach calculus or foreign languages, for example. If Those schools could be hooked into say the Billings school system and offer these courses, they would be at a much greater advantage than they are today. But they need fiber optics cable to do it. Fiber optics for this purpose would be a very expensive investment for U.S. West or any other telephone company. I believe that the Federal Government should provide an incentive to U.S. West to make it more cost-effective so that this service can be offered in rural areas. Kids in rural areas should be afforded the same opportunities as kids in urban areas.

Mr. PEOPLES. Let me make one comment on that, too, Senator. Last week I heard a presentation in Seattle dealing with the Washington school system, and there was a small school system south of Pullman that probably has been, at least determined to be probably the most successful school system in the State of Washington.

And it's a short distance from Pullman. You know, the obvious question one would ask, why don't they consolidate with Pullman? But these folks in this small community of I think it's only 250 students from grades K through 12, have access because that community has invested in telecommunications, and they're teaching Japanese in their school system; they're teaching science courses that are not available even in Pullman which is the home of Washington State University.

Senator BAUCUS. How did you get that?

Mr. PEOPLES. The people in that community decided they wanted to keep their own school system, and the only way they could keep their own school system was to invest in telecommunications. Obviously they've done that through voting school levies that are very high, but the payoff has been substantial for those people and it's the envy of the State of Washington, and they're doing that because they had that access, so obviously Washington does have digital switching. As a matter of fact, when we look at our neighboring State of Idaho, the entire State of Idaho has access to digital switching. Montana doesn't. Montana, and Mr. Walker from U.S.

West can probably tell us better than anyone else, but I think portions of Billings, Great Falls, Missoula, Helena, and Bozeman have digital switching. The rest of the State does not have digital switching, and for the rest of the State, they are apart from the world of the information age and high-tech industry to be able to participate.

Senator BAUCUS. State-of-the-art telecommunications services are our best hope for closing the distance gap in rural areas.

Mr. PEOPLES. One of the things that's happening is the agricultural incubator. It's an incubator without walls in southwestern Montana, the seven-county area. That program is going to be tied into the Headwaters RC&D office. Every county is going to be tied in to telecommunications, and they're going to be able to communicate back and forth. They're going to have access to that great data base that's available.

Senator BAUCUS. The Montana RC&D is one of the more aggressive around.

Mr. PEOPLES. More aggressive than any of them.

Senator BAUCUS. That's right.

Mr. PEOPLES. Extremely so. I guess it's beyond—the only thing that should limit our venture into telecommunications is our imagination because it's there. Thank you.

Senator BAUCUS. Conrad.

Senator BURNS. I'm all done.

Senator BAUCUS. Thank you very much. As Conrad said, you have come a great distance to testify here today. We appreciate the time you've taken.

Next panel.

[Recess.]

Senator BAUCUS. Let's get the next panel started. Next panel consists of Dan Walker, director for public affairs, U.S. West; Earl Owens, manager of the Blackfoot Telephone Co-op, Missoula. And Ken Sprain, vice president of the Northwestern Telephone System of Kalispell.

Dan, why don't you begin.

STATEMENT OF DAN L. WALKER, DIRECTOR FOR PUBLIC AFFAIRS, U.S. WEST, BILLINGS, MT

Mr. WALKER. Thank you, Senator Baucus and Senator Burns. I'm pleased to be here and have the opportunity to testify today on S. 759, the Rural Access to Telecommunications Services Act of 1989.

U.S. West applauds your efforts to focus on the rural economy as a priority for Montana in this our centennial year. Your objective of making sure that rural communities have the tools to face tomorrow's needs and to earn a role as a player in a global economy is one that we share.

There is obviously a need to focus on more than just telecommunications for that to happen, however. There are also issues of education, transportation, local government infrastructure, and the availability of investment capital for new products and services.

We understand that S. 759 is one of several that you are working on toward that end, and we support that approach and encourage the eventual consolidation of these bills.

We share in your recognition that a good telecommunications infrastructure will not assure economic growth and prosperity in and of itself, but without that structure, surely that growth will not happen.

We also agree with the objective that both urban and rural citizens must have access to all the benefits of the information age. While we are the largest provider of local telecommunication service in Montana, we are only one of a number of service providers. Of course there are three of us here at the table.

U.S. West currently serves 113 communities with more than 300,000 lines. The other service providers also play a vital role in connecting Montanans with each other and the world.

Some of the independent and cooperative companies may find that the availability of low interest loans is potentially of direct benefit to their ability to accomplish the goals of this act.

While U.S. West Communications does not see the loan pool as a solution to our particular problems, we do see an indirect benefit. Our major concerns in moving forward and accomplishing the objectives of this bill are customer support and the ability to realize a reasonable return on investment. Hopefully the bill would encourage both.

Historically we have invested in a new technology based upon marketplace conditions. Growth and the lack of capacity has triggered the majority of our equipment and facility change-outs, and this has often been in combination with modernization. This growth-triggered modernization has helped us take advantage of the efficiencies of newer technology and to make the changes as they went along.

A second condition resulting in facility replacement and modernization has been market demand for new services. You have heard about that earlier in the Butte situation.

There's some indication of regulatory sensitivity in regard to technology investment in areas where growth or market demand are not yet requiring new capacity. We need the understanding of regulators in all of the States where we provide service that we will make that rural investment only if we are not penalized for doing so. If U.S. West Communications is not allowed to recover that type of investment or earn a reasonable return, we will not be able to replace existing technology with newer technology in many rural areas.

These are issues we have been discussing with regulators, and you can be assured that these discussions will continue and increase in the future.

We spoke earlier about the Butte conversion of nearly 12,000 lines to a digital communication system. That will be complete in April 1990. At that time nearly 62 percent of our customers will be served with electronic offices in Montana.

Of those 62 percent, nearly 46 will be served with digital electronic offices. I would like to talk a bit about the goals of this bill. A number of these goals have been accomplished, and only a few are not accomplished.

In terms of multi-party telephone service, we have single-party service available for all of our customers. Some have chosen to have two-party service.

We do provide facsimile document transfer to all of our customers. That is available as are access to long distance carriers of choice in many of the areas we serve. As you know, cellular service is becoming more available in Montana and it is provided by carriers other than U.S. West.

In conclusion, I find that the goals of the Rural Access to Telecommunications Act to be consistent with the goals and objectives of U.S. West. We encourage this public dialogue regarding the issues that the bill addresses, and it is our hope that a broader understanding of present and future rural needs will help gain the kind of public sector encouragement needed to accomplish the goals of this legislation, and I thank you, Senator.

Senator BAUCUS. Thank you, Dan. I very much appreciate that.

[The prepared statement of Mr. Walker follows:]

TESTIMONY OF: DAN L. WALKER
GOVERNMENT RELATIONS DIRECTOR
401 N 31ST STREET
BILLINGS, MONTANA 59101

BEFORE THE: UNITED STATES SENATE
COMMITTEE ON SMALL BUSINESS
LIVINGSTON, MONTANA
MAY 24, 1989

I AM PLEASED TO HAVE THE OPPORTUNITY TO TESTIFY BEFORE THIS COMMITTEE ON SENATE BILL 759, THE "RURAL ACCESS TO TELECOMMUNICATIONS SERVICES ACT OF 1989."

U S WEST COMMUNICATIONS APPLAUDS YOUR EFFORTS TO FOCUS UPON THE RURAL ECONOMY AS A PRIORITY FOR MONTANA AS WE MOVE INTO OUR SECOND CENTURY OF STATEHOOD. YOUR OBJECTIVE OF MAKING SURE THAT RURAL COMMUNITIES HAVE THE TOOLS TO FACE TOMORROW'S NEEDS AND TO EARN A ROLE AS A PLAYER IN A GLOBAL ECONOMY IS ONE THAT WE SHARE.

THERE IS OBVIOUSLY A NEED TO FOCUS ON MORE THAN JUST TELECOMMUNICATIONS FOR THAT TO HAPPEN. THERE ARE ALSO ISSUES OF EDUCATION, TRANSPORTATION, LOCAL GOVERNMENT INFRASTRUCTURE, AND THE AVAILABILITY OF INVESTMENT CAPITAL FOR NEW PRODUCTS AND SERVICES. WE UNDERSTAND THAT S 759 IS ONE BILL OF SEVERAL YOU ARE WORKING ON TOWARD THAT END. WE CERTAINLY SUPPORT THIS HOLISTIC APPROACH, AND ENCOURAGE THE EVENTUAL CONSOLIDATION OF THESE BILLS BECAUSE OF THAT INTERRELATIONSHIP.

WE SHARE IN YOUR RECOGNITION THAT A GOOD TELECOMMUNICATIONS INFRASTRUCTURE WILL NOT ASSURE ECONOMIC GROWTH AND PROSPERITY IN AND OF ITSELF; BUT WITHOUT THAT STRUCTURE, ECONOMIC GROWTH AND PROSPERITY WILL SURELY NOT HAPPEN. WE ALSO AGREE WITH THE OBJECTIVE THAT BOTH URBAN AND RURAL CITIZENS MUST HAVE ACCESS TO ALL OF THE BENEFITS OF THE EMERGING INFORMATION AGE.

WHILE U S WEST COMMUNICATIONS IS THE LARGEST PROVIDER OF LOCAL TELECOMMUNICATIONS SERVICE IN MONTANA, WE ARE ONLY ONE OF A NUMBER OF TELECOMMUNICATION SERVICE PROVIDERS. WE CURRENTLY SERVE 113 COMMUNITIES WITH APPROXIMATELY 300,000 LINES. THE OTHER SERVICE PROVIDERS ALSO PLAY A VITAL ROLE IN CONNECTING MONTANANS WITH EACH OTHER AND THE WORLD.

SOME OF THE INDEPENDENT AND COOPERATIVE COMPANIES MAY FIND THAT THE AVAILABILITY OF LOW INTEREST LOANS IS POTENTIALLY OF DIRECT BENEFIT TO THEIR ABILITY TO ACCOMPLISH THE GOALS OF THIS ACT. WHILE U S WEST COMMUNICATIONS DOES NOT SEE THE LOAN POOL AS A SOLUTION TO OUR PARTICULAR PROBLEM, WE DO SEE AN INDIRECT BENEFIT. OUR MAJOR CONCERNS IN MOVING FORWARD AND ACCOMPLISHING THE OBJECTIVES IN THIS BILL ARE CUSTOMER SUPPORT AND THE ABILITY TO REALIZE A REASONABLE RETURN ON INVESTMENT. HOPEFULLY, THIS BILL WILL ENCOURAGE BOTH.

HISTORICALLY, U S WEST COMMUNICATIONS HAS INVESTED IN NEW TECHNOLOGY BASED UPON MARKETPLACE CONDITIONS. GROWTH AND THE RESULTING LACK OF (TELEPHONE SERVICE) CAPACITY HAS TRIGGERED THE MAJORITY OF OUR EQUIPMENT AND FACILITY CHANGEOUTS, OFTEN IN COMBINATION WITH MODERNIZATION. THIS GROWTH-TRIGGERED MODERNIZATION HAS HELPED US TAKE ADVANTAGE OF THE EFFICIENCIES OF NEWER TECHNOLOGY. A SECOND CONDITION RESULTING IN FACILITY REPLACEMENT AND MODERNIZATION HAS BEEN MARKET DEMAND.

THERE IS SOME INDICATION OF REGULATORY SENSITIVITY IN REGARD TO TECHNOLOGY INVESTMENT IN AREAS WHERE GROWTH OR MARKET DEMAND ARE NOT YET REQUIRING NEW CAPACITY. WE NEED THE UNDERSTANDING OF REGULATORS IN ALL OF THE STATES WHERE WE PROVIDE SERVICE THAT WE WILL MAKE THAT RURAL INVESTMENT ONLY IF WE ARE NOT PENALIZED FOR DOING SO. IF U S WEST COMMUNICATIONS IS NOT ALLOWED TO RECOVER THAT TYPE OF INVESTMENT OR EARN A REASONABLE RETURN, WE WILL NOT BE ABLE TO REPLACE EXISTING TECHNOLOGY WITH NEWER TECHNOLOGY IN MANY RURAL AREAS. THESE ARE ISSUES WE HAVE BEEN DISCUSSING WITH THE REGULATORS. PLEASE BE ASSURED THAT THESE DISCUSSIONS WILL CONTINUE AND INCREASE IN THE NEAR FUTURE.

IN CONCLUSION, I FIND THE GOALS OF THE "RURAL ACCESS TO TELECOMMUNICATIONS SERVICES ACT OF 1989" TO BE CONSISTENT WITH THE GOALS AND OBJECTIVES OF U S WEST COMMUNICATIONS. A NUMBER OF THE SPECIFIC GOALS ENUMERATED IN SECTION 501 HAVE BEEN ACCOMPLISHED IN THE TELEPHONE EXCHANGES IN MONTANA SERVED BY U S WEST COMMUNICATIONS. WE ENCOURAGE THIS PUBLIC DIALOGUE REGARDING THE ISSUES THAT THIS BILL ADDRESSES. OUR HOPE IS THAT A BROADER UNDERSTANDING OF PRESENT AND FUTURE RURAL NEEDS WILL HELP GAIN THE KIND OF PUBLIC SECTOR ENCOURAGEMENT NEEDED TO ACCOMPLISH THE GOALS OF THIS LEGISLATION.

Senator BAUCUS. Earl.

STATEMENT OF EARL OWENS, GENERAL MANAGER, BLACKFOOT TELEPHONE COOPERATIVE, MISSOULA, MT

Mr. OWENS. Thank you, Senator Baucus, Senator Burns.

In your opening remarks, you talked about the plight of Montana and the fact that we have people leaving the State of Montana.

People want to live in Montana and other rural environments. Dr. Harry Fritz of the University of Montana history department in a speech for the Western Montana College Foundation in Dillon, said, "Ironically, the most far-reaching modern development has completely escaped the attention of the State. It's been largely a serendipitous benefit. It's the tele-commuter revolution. We might have been forewarned if we had read Alvin Toffler's collection of extrapolations, The Third Wave. Toffler predicted by the end of the century, up to one quarter of the American labor force—maybe 25 or 50 million people—might have their work stations in their home."

He went on to say, "Telecommuters don't want to live in Urbansprawl, America or Ratrace, U.S.A. They want their electronic cottages right out here with the rest of us."

What can we do? S. 759, the Rural Access to Telecommunications Act of 1989, is a great beginning. It recognizes the need for universally available state-of-the-art telecommunications services.

That need was dramatically emphasized in the March 27, 1989 issue of Time magazine in an article entitled, "The Small Town Blues."

The article contained what I consider to be a profound statement. It said, "Access to high-quality telephone service will be as important to a community in the next century as railroads were in the last."

The article went on to say, "Rather than trying to recreate the web of regulations and subsidies that once supported rural America, Federal policy should concentrate on helping rural areas compete in the new global economy."

I believe that the thrust of S. 759 is to provide rural America with the tools to make it competitive in our economy and in the new global economy.

The leaders in the rural telecommunications industry I visit with around the country are committed to fostering and building the telecommunications infrastructure envisioned in S. 759. Of particular interest to many of the telecommunications leaders is access to competitive long distance carriers, and the ability of schools, hospitals, and other public facilities to send and receive audio and visual signals.

Rural America, with very few exceptions, has not seen many benefits from the deregulation of the telephone industry, especially in terms of competitive long distance carriers. I'm not aware of any rural residents in Montana served by a rural telephone company who have the advantages of equal access to competitive long distance carriers.

The reason for this dearth of equal access in Montana is not technological, nor is it the inability or unwillingness of the rural telephone companies. The reason is that the long distance carriers other than AT&T, who basically inherited the service, are simply not interested in providing service to the sparsely populated rural areas.

Let me emphasize here, however, that no rural telecommunications leader I have ever visited with is willing to have equal access at the expense of losing geographically averaged long distance rates.

The industry currently uses geographically averaged rates so that equal distance calls cost the same no matter where they're made. That is, a 450 mile call from Arlee, MT, to Jackpot, NV will cost the same as a call from, a 450 mile call from Boston, MA to Washington, DC. Geographically averaged long distance rates are essential for the universal telecommunications infrastructure envisioned by S. 759.

The ability of schools, hospitals, and other public facilities to send and receive audio and visual signals—two-way interactive video—will have a significant impact on schools and hospitals in rural communities.

Schools will be able to share resources with other distant schools to provide the advanced curriculum required for their students and yet stay within imposed budget constraints.

Just last week in Montana there was a distance education seminar held to discuss topics, to discuss features like you're envisioning in S. 759.

Rural hospitals will also be able to cost effectively provide training and diagnostic services.

The Blackfoot Telephone Cooperative has perceived a direct link between the long-term viability of a community and whether or not the community is able to keep its schools. For that reason, we have begun an investigation of providing two-way interactive video capability on our soon-to-be-completed fiber optic interexchange facilities.

We hope to be able to link all of the schools in our service rather with each other and with schools in Missoula.

Additionally we hope to include the University of Montana and the Missoula Vocational Technical Center in order to provide continuing education courses and perhaps even degree programs in our rural communities.

I do have a couple of specific comments about S. 759. Section 501 states that the access would be to "rural residents, businesses, industries," and so forth.

However, section 502 (a) and (b) of the bill state that the Rural Communications Incentive Fund will serve as a source of capital for providing improved telecommunications to "rural businesses, industries, and public facilities including schools and hospitals," leaving out reference to rural residents. Surely the incentive fund is also intended to provide funds for facilities to rural residents.

Second, section 503(a)(1) requires that "pilot programs are operated in 10 regions of the United States."

I would encourage that the legislative intent include language which would permit multiple small telephone companies to work

together in a single pilot project, rather than have the responsibility fall entirely on a single company. I believe the scope and diversity which would be included in such a project would be beneficial.

That concludes my comments.

Again, thank you for the opportunity to participate in this forum and share my thoughts on this vital legislation affecting rural America.

Senator BAUCUS. Thank you very much, Earl. Your experience is very helpful.

[The prepared statement of Mr. Owens follows:]

I would like to thank Senator Baucus and the members of the Subcommittee for this opportunity to discuss issues critical to the economic recovery and future well-being of rural residents and businesses.

I am Earl Owens, General Manager of the Blackfoot Telephone Cooperative, Inc. of Missoula. The Blackfoot Telephone Cooperative was incorporated in 1954 by citizens of Western Montana and the first service was provided in 1957 to 466 members. Since that time the Cooperative has grown and currently provides service to 4,602 access lines representing approximately 16,000 residents in twelve Montana communities and one Idaho community.

Montana is rural and very sparsely populated. To put it in perspective, as of 1986 there were only thirteen communities with a population greater than 5,000 in the state. Of Montana's fifty-six counties, nineteen (one-third) have a population of less than 5,000. Montana is 18.5 times as large geographically as Massachusetts but has only 13% as many residents.

And people are leaving Montana. Since 1980 the state has lost a net of 29,000 residents and it appears that the exodus is accelerating because between 1986 and 1988 the state lost 14,000 residents. What are the reasons for this dramatic loss?

Senator Baucus has delineated several reasons including the problems with capital formation in rural America and the deregulation of the telephone industry. I applaud his efforts and yours to address these two specific problem areas.

However, some of the problems for rural America in general have

been exacerbated by some of the very improvements we have been fortunate enough to share with our urban neighbors. The principal example is the network of high speed roads connecting our communities. Today people think nothing of driving 100 miles one way to shop for groceries, school clothes, tires or vehicles. The urban areas offer greater selection and competitive prices not afforded in their small home towns. As a result, the small town merchants are going out of business and the community loses jobs, income and its residents.

But people want to live in Montana and other rural environments. Dr. Harry Fritz of the University of Montana history department, in a speech for the Western Montana College Foundation at Dillon, Montana on April 25, 1986, said, "Ironically, the most far-reaching modern development has completely escaped the attention of the state. It's been largely a serendipitous benefit. It's the telecommuter revolution and we might have been forewarned back in 1980 if we'd read Alvin Toffler's collection of extrapolations, The Third Wave. Toffler predicted that by the end of the century, up to one quarter of the American labor force - maybe 25 or 50 million people - might have their work stations in their homes."

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The leaders in the rural telecommunications industry I visit with around the country are committed to fostering and building the telecommunications infrastructure envisioned in S. 759. Of particular interest to many of the telecommunications leaders is access to competitive long distance carriers and the ability of schools, hospitals, and other public facilities to send and receive audio and visual signals.

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capability on our soon-to-be-completed fiber optic interexchange facilities. We hope to be able to link all of the schools in our service area with each other and with schools in Missoula. Additionally, we hope to include the University of Montana and the Missoula Vocational Technical Center in order to provide continuing education courses and perhaps degree programs in our rural communities.

I do have a couple of specific comments about S. 759. Sec. 501 states that the access would be to "rural residents, businesses, industries..." However, Sec. 502 (a) and (b) state that the Rural Telecommunications Incentive Fund will serve as a source of capital for providing improved telecommunications to "rural businesses, industries, and public facilities, including schools and hospitals." Surely the Incentive Fund is also intended to provide facilities to "rural residents."

Sec. 503(a)(1) requires that "pilot programs are operated in 10 regions in the United States." I would encourage that the legislative intent include language which would permit multiple small telephone companies to work together in a single pilot project rather than have the responsibility fall entirely on a single company. The scope and diversity which could be included in such a project would be beneficial.

That concludes my comments. Again, thank you for the opportunity to participate in this forum and share my thoughts on this vital legislation affecting rural America.

Senator BAUCUS. Ken Sprain.

STATEMENT OF KENNETH L. SPRAIN, VICE PRESIDENT, NORTHWESTERN TELEPHONE SYSTEMS, INC., KALISPELL, MT

Mr. SPRAIN. Thank you, Senators, for this opportunity. I'm here this morning representing three separate interests: first as vice president of Northwestern Telephone Systems. Northwestern Telephone Systems is a local exchange carrier serving customers in Flathead, Lake, and Sanders Counties. We serve 34,725 customers today.

We are presently a non-REA company.

I'm also representing Pacific Telecom, which is our parent company out of Vancouver, WA. Specifically, Pacific Telecom represents 250,000 rural access lines in 13 companies in 9 States; 9 of these 13 companies have used, or presently are using, REA funding as part of their business.

The third interest is myself. I'm a life-long rural American, having lived in Wisconsin, Alaska, eastern Washington, and Montana. So, as a rural American, I find this real interesting.

At this point I agree with what Senator Baucus has entered into the record, as far as the definition of the rural problem and some of the solutions. I have a couple of additional thoughts I want to share concerning the problem.

The first one is; technology has gradually changed the values of rural Americans, especially the young people. And these changing values are drawing them out of rural America into the urban areas, and once they achieve a certain level of success in the urban area, many of them go back to their original values and they say, "I want to go back to what I had in rural America."

This is evidenced by the number of vacation homes, retirement locations, retreats, lodges—I mean, there's a whole industry of people just trying to get back to the values that they grew up with in rural America.

Second factor, and this is a bit of a problem for us to bring the people back to the rural part of the country, and that is, there are quite a few people that live in our communities that have achieved their values in these communities. They're making all of the money they want. They have what they want. They don't want anything else. Therefore, they aren't inviting growth. They aren't inviting an increased economy.

This is where our industry has a real opportunity. If we do our job right, we can maintain the values for the people that already reside here, and we can help achieve the value systems for the people that are leaving or that want to come back. This is especially true if we work with the educational systems.

Yesterday Flathead Valley Community College broke ground in Kalispell. We're working with them. We have a cooperative project with Earl's company placing fiber optic cable from Kalispell to Missoula. By working together we have reduced each other's costs and will be able to extend the services that are, that reside and exist today in Missoula into our rural communities.

As part of my testimony, I've attached a Wall Street article, Wall Street Journal article about a community in Breda, IA. A

small telephone company in Breda, IA, placed a fiber optic cable that connected directly to the AT&T national network, and then they offered telemarketing services out of Breda, IA.

The high quality labor, low cost labor of the rural family has proven to be very successful. There are other communities that have done the same thing. It's just a demonstration that projects like this do work.

I'd like to offer a quote from that article. And I quote, "Five years ago this wouldn't have been possible," says an economist, "but with new technology," he adds "there's absolutely no reason why a lot of these companies can't operate in rural areas just as easily as they can in Los Angeles or New York City."

The other exciting thing in the legislation is that the goals of this legislation closely mirror my company's business plan, right down to the timetable. By the end of 1989, we will be 90 percent digital, and in September 1990, we'll be 100 percent digital as far as our central offices, and we will have our major centers tied together with fiber optics as well as the fiber to Missoula.

Senator BAUCUS. Your own company will have fiber optic cable?

Mr. SPRAIN. Yes.

Senator BAUCUS. That's interesting.

Mr. SPRAIN. Kalispell is connected with Big Fork, Columbia Falls, and Whitefish with fiber optics today, and now we're extending it down to the west side of the lake to pick up Lakeside, Elmo, and Polson. And then we'll meet up with Earl's company and we have a joint plow all the way down to Missoula.

As far as using the financing from the fund, NTS may or may not. Being that we're not presently using REA financing, we may find that this is an opportunity for us, or we may continue to fund ourselves. PTI will continue to look at this type of funding.

We have rescinded some REA funds from some of our companies because we found it to be better for business, and we didn't need to use that type of funding anymore.

We appreciate funding in the legislation, and feel it imperative that it stays there, that this funding be available to both cooperatives and private companies.

Now, one concern I have, and it's a major factor for rural communications to continue to grow and continue to succeed, and that is if this legislation and our joint efforts are to succeed, we have to have the support of the large regional operating companies. Rural America will not survive without the support of the companies serving the larger urban areas.

I have a concern there based upon my experiences here in Montana as well as reading trade journals and news articles. I'm sorry I can't be anymore specific because we have actions presently underway in both private negotiations and the legislative arena, judicial arena and the regulatory arena, so I wouldn't want to compromise where we might be and where we might go on that.

Senator BAUCUS. Well, this is the legislative arena.

Mr. SPRAIN. In summary, all three of my interests are represented by the two bills that we're talking about, the Rural Access to Telecommunication Services Act of 1989, and Rural Access to Capital Act of 1989, but the important thing is throughout the process

we have to monitor the support of the large urban areas, the companies serving the large urban areas.

In closing, I'd like to invite you, your staff or any other interested party that you will want to send, to stop by for a visit. We'd like to show you our facilities. We'd like to show you where we're going, and we'd like to just share what we're doing. Contact us if we can offer any support or assistance, and we're always available for opinion. We are interested in our customers, our industry, our State, and our country.

Senator BAUCUS. Thank you, Ken.

[The prepared statement of Mr. Sprain follows:]

Testimony of:

Kenneth L. Sprain, Vice President
Northwestern Telephone Systems, Inc.
Kalispell, Montana

before the

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS

"Rural Access to
Telecommunications Act of 1989"
S 759

Presented at:

Livingston, Montana
May 24, 1989

As I appear before this committee, I am representing three separate but common interests. First I come before you as Vice President of Northwestern Telephone Systems in Kalispell, Montana. Northwestern Telephone Systems (NTS) currently serves 34,725 access lines in the rural areas of Flathead, Lake, and Sanders counties.

Secondly Northwestern Telephone Systems is a subsidiary of Pacific Telecom Incorporated (PTI) of Vancouver, Washington, and in an effort to make my testimony more meaningful, I have asked for PTI's position on the proposed legislation and have included it. PTI serves about 250,000 access lines in nine states. Most of these lines are in small rural exchanges. Of the thirteen separate PTI companies, nine have used REA financing.

Finally I represent myself, a life-long rural American. Having been born and reared in Wisconsin, I have spent my entire professional life serving the communications industry in Alaska, eastern Washington, and Montana. I truly have a rural heart and genuinely believe that telecommunication services play a vital role in rural areas.

I am convinced that the problem described in the congressional record by Senator Baucus is real. The grim truth is that rural America is in fact losing its resources to the urban areas. I agree with Senator Baucus's comments to the Senate when he said,

> "Part of the answer is cyclical. Part of it is structural. But another part of it is that rural America has been victimized by Federal Policies."

I want to spend part of my alloted time here giving you my observations regarding this migration of resources. First, technological advances in media, communications, education, and transportation have introduced new cultures to rural America. It's hard

to comprehend the effect of systems like the small satellite receiving stations. I believe that these advances have caused a different value system to emerge and consequently many people find the need to move to the urban areas, just to satisfy their values.

However, as affluence is achieved, many times this newfound value system reverts to something only found in the rural areas. This is evidenced by the number of vacation homes, retreats, lodges, and retirement homes in rural America. Thus, although the evidence demonstrates that there is a steady migration to urban areas, I believe people once attracted to the urban areas are trying to find a way back. Telecommunications can play a vital role in enabling this to occur. Additionally the synergy of our industry and that of the various educational systems can expedite this reverse migration.

Another factor affecting growth and stability in the rural community is the number of people that live in the community that have adequate paying jobs and a culture that meets their needs. In most of the rural areas that I have lived, most of the people seem to want a status quo. They appear to be happy with what they have and don't necessarily want development. What they don't often recognize is the slow erosion of what they have.

As is usually the case, the problem is easier to identify than the solution. In this case, the telecommunications industry has an ideal opportunity. We can profitably bring many of the cultural needs and values to the rural areas, without disrupting the systems that already exist. Northwestern Telephone Systems, along with many other rural telephone companies, is already attempting to achieve the same result as the proposed legislation.

As an example of these efforts, I would like to call your attention to the Wall Street Journal article I have attached to the distributed copies of my testimony. This article provides an impressive example of the effect of introducing modern efficient telecommunications facilities in rural areas. As the article suggests, modern technology can be introduced in rural areas like Breda, Iowa, and consequently can have an enormous positive effect on the economic situation of similar areas. The legislation before us today can be the vehicle in which other rural communities like Breda can benefit from the introduction of modern telecommunications facilities. I urge each of you to read this article. I sincerely hope that similar economic miracles can become reality in Montana and other rural areas of the nation.

Northwestern Telephone Systems, Pacific Telecom, and rural American Ken Sprain support the intent of the Rural Partnership Fund. It is extremely satisfying to see the goals that are cited in legislation closely mirror the business plan and objectives of our own operation. Our current construction and capital plan are attempting to make these goals a reality.

Although NTS is not presently using REA financing, the availability of funds from this legislation could greatly aid our efforts. Depending upon our service and business needs, we may seek to use the Fund.

The goals cited in the bill also complement the overall Business Plan of all PTI companies. Again, depending upon service and business needs, PTI may seek to use the Fund in some of its companies. One aspect of the legislation we find crucial concerns the availability of the Fund to all companies, not just cooperatives. We strongly support this part of the legislation. There are many rural companies across the country,

both cooperatives and private entities, that can take advantage of this opportunity to advance service in their area. Thus, we don't believe that the funds established by the legislation should be restricted to cooperatives.

Finally, while this legislation will help maintain a strong and healthy rural economy by providing improved communication capability, we have other problems to overcome. I believe the large regional operating companies are an essential element to the success of the rural network. Without their commitment and cooperation, no business plan or legislation will ever allow our joint goals to be achieved.

Frankly, their recent actions make me skeptical of their commitment to a ubiquitous, competitive network. My observations are based on articles in various trade journals as well as my Company's direct involvement with them. The effect of their efforts can result in increased costs to us and our customers as well as reduced competition and flexibility for new services. If these regional operating companies placed more emphasis on the rural areas, I believe that our mutual goals would be more readily achieved.

In summary, Northwestern Telephone Systems, Pacific Telecom Incorporated and Ken Sprain the rural American all support S759. The legislation before us today would be a major step forward in reversing the alarming economic decline in rural America. I am pleased to offer my position on this critical legislation and thank you for the opportunity to be represented.

Telemarketers Take Root in the Country

Computers Lead To Opportunity In Rural Areas

By Bill Richards
Staff Reporter of The Wall Street Journal

BREDA, Iowa — Computers and cow towns are finding a perfect match.

Take Breda, for example. With the farming slump of the early 1980s, this tiny western Iowa community with a population of 502 was in trouble. It lost its high school, its car dealership and its rail connection, not to mention several farms.

Then an unlikely Samaritan appeared: Sitel Inc., an Omaha, Neb., concern that peddles insurance and credit cards by phone across the nation. Last year the telemarketer picked Breda for a new sales center, hiring 43 locals—mostly farm wives—to work its computers and phones at $4 an hour. Those jobs won't save the local farms if agriculture nose-dives again, but they are tiding over some struggling families.

"Times are tough," says Deb Kroeger, a farmer's wife and mother of four. "But they'd be a lot tougher if I didn't have this job." Adds co-worker Sharon Pudenz, whose husband farms in nearby Vail, Iowa: "You just don't find work like this in small towns like ours."

Saving Money, Saving Towns

Not until recently, anyway. But high technology and low wages are leading a growing number of companies such as Sitel to set up shop in rural communities like Breda. Development officials in Nebraska, North Dakota and Iowa—places often overlooked by manufacturers searching for plant sites—say they are getting a stream of inquiries from companies whose business is done mainly by telephone and computer. In Nebraska alone last year, small towns gained 650 new jobs from such firms. Sitel, one of the nation's largest telemarketers, has created 500 new jobs in the past 2½ years—mostly in Midwestern farm towns with populations under 2,000.

"For these companies," says Shirley Porterfield, a rural economist for the Agriculture Department, "location doesn't matter a whole lot anymore."

Last summer, Rosenbluth Travel Inc., one of the nation's largest travel agents, shifted its computer reservations system from its home base in Philadelphia to an empty storefront in Linton, N.D. The little town of 1,500, whose economy took a pounding with last year's drought, gained 40 new jobs from the move while Rosenbluth cut its overhead by 20%. Hal Rosenbluth, the agency's president, says he was so pleased that he is encouraging airlines and other companies with big computerized operations to consider similar shifts.

"Data entry," Mr. Rosenbluth says, "knows no boundaries."

Citicorp proved that fact when it transferred its credit-card operation to Sioux Falls, S.D., in 1981. Others such as Amoco Corp. and Deere & Co. have moved parts of their data-processing units to smaller cities, too. But only recently have advances such as fiber optics and electronic switch systems made truly rural areas practical for footloose employers.

The Time Is Right

"Five years ago this wouldn't have been possible," says Abner Womack, a rural economist at the University of Missouri. With new technology, Mr. Womack says, "there's absolutely no reason why a lot of these companies can't operate in a rural area just as easily as they can in Los Angeles or New York City."

Federal economists say the impact of the job switch to rural areas is still too new to show up on their charts. But here in Carroll County, where manufacturing and farm jobs have dropped, the spurt in computer-based jobs is apparent. Last spring, American Home Shield Corp., a Santa Rosa, Calif., concern that processes warranties for home-appliance systems, installed 50 new computers in a vacant lumber store in Carroll, Iowa, the county seat 12 miles from Breda. Behind a clutter of potted plants, dozens of women now handle calls from 38 states. Eventually, the company expects to put 400 people on its Carroll payroll, which would make it the county's biggest employer.

Michael Wahl, American Home Shield's regional service manager, says it costs his company 35% less to operate in Iowa than in California. Turnover—about 40% annually at the company's California service center—is barely noticeable here; just two people quit during the insurer's first year in Carroll. What's more, "the quality of the work force here is outstanding," he says. "And tardiness is a non-issue."

Telemarketing officials say they are especially attracted to small towns that have independent telephone companies with cash reserves and the desire to install high-tech equipment in return for new business.

Breda's telephone company fit that description. Two years ago it put up $90,000 to lay 13.5 miles of new fiber-optic cable, connecting the town with American Telephone & Telegraph Co.'s national fiber-optic network that runs just south of here. With fiber-optic cable, which greatly expands and improves an area's phone and computer-transmission ability, Breda suddenly had a sophisticated communications link to the outside world. And suddenly it had an appeal for Sitel.

> **'FIVE YEARS ago this wouldn't have been possible,' says an economist. But with new technology, he adds, 'there's absolutely no reason why a lot of these companies can't operate in a rural area just as easily as they can in Los Angeles or New York City.'**

The Midwest's central location also allows phone marketers to reach anywhere in the U.S. at the cheapest rate. And there's a plus: Midwesterners don't have strong accents, helping sales.

For the rural Midwest these new jobs have arrived just in time. Agriculture's roller-coaster economics has been clearing farmers off the land at the average rate of 37,000 a year during the 1980s. And traditionally, farm communities here have been too far from markets and too poor to expand their economic base.

Visible Effect

In Breda, the effect is visible. At five o'clock there is even a traffic jam—or what passes for one in a town with a two-block downtown. Business is up at Zack's, the local cafe. And the town is even laying the groundwork for a new housing development with 34 lots, with hopes of seeing an influx of newcomers.

In all, Sitel and a second local business that uses computers to dispatch trucks throughout the U.S. will employ about 80 people in Breda by the end of the year, an unusually large employment base for a town of this size.

Many of those workers will come off the corn, hog and cattle farms that dot the rolling countryside here—people like Mary Ann Iribeck. American Home Shield pays Mrs. Iribeck $5.50 an hour to handle complaints about balky air conditioners and failing dishwashers. She calls her job "a godsend" that has allowed her husband, Michael, to devote himself full time to operating their grain and livestock operation.

"Mike was running himself ragged trying to hold down an outside job and farm too," Mrs. Iribeck says. "The gates were broken and the hogs were running all over and he was turning into a bear."

When American Home Shield showed up, Mr. Wahl says more than 1,000 people applied for jobs, although the company didn't run a single "Help Wanted" ad.

Nonetheless, before then local development officials never considered such companies as potential employers. "They really opened our eyes," says Patrick R. Moehn, a Carroll County banker who heads the local development corporation. Now, he says, Carroll is sending a raiding party to California this month to try to talk another insurer into transferring jobs here.

"If I were a board member of a company somewhere else that was paying its people $12 an hour to sit in front of a computer," says Mr. Moehn, "I'd sure be asking my management why they weren't looking at moving here."

Senator BAUCUS. Would each of you please describe the effects of telecommunications deregulation on Montana. What effect has it had on rural communities?

I believe that deregulation tends to benefit urban areas and tends to hurt rural areas. Take airline deregulation, for example. Congress had to enact the essential air service to protect eastern Montana from loss of service.

What do we need to do in the telecommunications industry to similarly protect rural areas?

Mr. OWENS. Analogous to the airline would be what Ken is talking about, working with the Bell operating companies, because they are the big player in the industry. And what they do dramatically effects a company of our size, but deregulation in the telecommunications industry, basically in the rural areas has brought some benefits to the business user because most of the decrease in the long distance rates have gone to the business daytime—the daytime rates which are primarily business rates.

Local rates have gone up as a result of the Federal subscriber line charge which is currently at $3.50 for residential and single-line business; $6 per month for multi-line business.

Rural residents, all Americans, I believe, have seen some benefit from the divestiture and deregulation in that some of the things that have come along with it have been enhanced customer premise equipment. I mean we can all buy telephones at K-Mart and Sears, and they have automatic redial buttons and more memory and features than most of us ever use.

I think as Ken mentioned—I think you mentioned—equal access to competitive carriers for Northwestern Telephone in 1990. That will be a real benefit, in my opinion, to rural residents. They'll be able to choose their carrier for whatever reasons, for quality of service, for economic reasons. But currently we don't have that in Montana, but the stage is being set so that we can have that.

Ken mentioned that we're working in conjunction or working together on fiber optic projects.

Senator BAUCUS. Let me put the question differently. The intent of this bill is to help rural communities in Montana acquire state-of-the-art telecommunications services. With these services, rural schools will be able to offer up-to-date instruction capability; rural hospitals will be able to look into the Mayo Clinic or Billings Deaconess or St. V's to get up-to-date information or caring for patients; and rural businesses like Big Bud in Havre may acquire sophisticated telecommunications capabilities if they so wish.

your view does this bill adequately provide for these services, or is there something we've overlooked?

Mr. SPRAIN. It will, of course, it still depends upon the management of the company to have the vision to want to do these things, and I don't even know how many companies there are in Montana, but if the management has the vision to do that, this will help.

Senator BAUCUS. Now you're talking about the management of the company?

Mr. SPRAIN. Yes.

Senator BAUCUS. The business?

Mr. SPRAIN. Yes. As Earl is doing, providing the fiber and having the vision to extend education. One of the key things we see is edu-

cation. If we can support education, that will help the rural communities, and this bill will help that, if the management has the vision and if the management chooses to use it.

Senator BAUCUS. I agree. I hope this legislation enhances management's vision so that all of rural America will be able to join in the Information Age along with urban areas. Without the latest telecommunications technologies, it's going to be harder and harder for rural areas to compete in the marketplace.

Dan, did you have any comment?

Mr. WALKER. I might comment a little bit on this. You talked originally about the effect of the telephone deregulation situation, and the primary effect of that has been the shifting of the burden of cost. Many of the things we do in this country have to do with the question of who's going to pay?

Senator BAUCUS. Right.

Mr. WALKER. That effort has clearly shifted the burden to the local rate payer, and away from the subsidy of long distance. That is a problem that the regional operating companies of which I represent face as well the balance of the companies. Our local rates have gone up significantly since deregulation.

To illustrate that I might also point out that inter-state long distance has come down nearly 50 percent in that same period of time. Who uses the long distance? Who benefits? Who uses the local service? Who's has an advantage? There's been a shift, there's no question about that.

I'd like to thank you for the opportunity to point that out.

In the other area of modernization, we're very pleased with our progress in modernization. As Don Peoples pointed out earlier, Idaho is 100 percent digital. As you note, U.S. West serves Idaho as well. That was accomplished through some cooperation with the regulatory agencies in Idaho.

Senator BAUCUS. Has the Anheuser-Busch plant done any digital switching?

Mr. WALKER. I certainly wouldn't comment on that.

We have digital switching in Billings as well, but even there was a situation, as you know we operated a regulated environment. Earnings were such that, higher than anticipated. Earnings were plowed back into—the term "economic development" was used—were plowed back into investment in that company, our company's operations in Idaho.

The situation that we face in all of the States where we operate is one of traditional ratemaking. Do we invest and advance the technology to benefit a few, sometimes such as businesses and others, while perhaps the residents who are not interested in advanced technology will have to share the burden? This is a question that we're working on very hard, as I alluded to in my testimony.

It's also a question of capacity. As we invest in newer technologies, generally the capacities are much higher than in previous technologies; that is a shelf of equipment or a piece of cable may have a capacity for multiple thousands of conversations where there may only be a need for a few thousand. Should the ratepayers be asked to pay for only what they use or should they be asked to pay for the capacity?

These are questions that we're working with, and greatly affect what's going on, but all the while, we're making those investments.

Senator BAUCUS. That answers my question. You mentioned in your prepared testimony that U.S. West faces potential problems with the Montana Public Service Commission in bringing updated telecommunications to rural areas. Please comment further on the problems you face.

Mr. WALKER. My comments were applicable to all of the 14 States where we operate which are all rural States and not just to Montana.

They were applicable to the situation, one not in the written testimony was the situation of limited capital, so to speak. There are more projects to do than there are capital dollars to do that.

But going beyond that and the decision in any one of these areas to make investment, and setting the priorities, based upon growth and demand, where do you invest next? We heard about Butte earlier. Situations developed there that made that a very wise choice, and we're going to be modernizing there.

We have modernized in a number of other areas, some large and some small, including Bainville, for instance, as a digital switching office.

Senator BAUCUS. Bainville has digital switching?

Mr. WALKER. Bainville does.

Senator BAUCUS. How did Bainville get it?

Mr. WALKER. Bainville was—now that's another question, but to get to the situation at hand is as we make these investments and look at these, of course the regulators are involved in all of the States that we operate in, and the question clearly is the reason and the prudence of making that investment. Is growth a trigger?

Growth has traditionally been a trigger in our business due to the long anticipated lives of our equipment. Now that is changing. We have equipment that will be replaced that has a basis in it that has not been depreciated. How will these dollars be recovered? How will these investments be——

Senator BAUCUS. How should they be in your view?

Mr. WALKER. We believe that they're a cost of doing business, and they should be recovered through operations revenues.

Senator BAUCUS. But how? Who should bear the burden?

Mr. WALKER. I normally don't get into a question of policy such as that, but I think a parable might be useful. Clearly——

Senator BAUCUS. I don't mean to interrupt, but you——

Mr. WALKER. Clearly a small community, for instance, could not afford the cost to make that improvement.

Senator BAUCUS. That's right. So what you're saying is that either a company like U.S. West or a cooperative, should bear a disproportional cost, or we need some additional incentive—perhaps this bill—so that all, not only U.S. West, but each of the other companies, can more economically provide this service that otherwise would not be available. Is that a correct statement?

Mr. WALKER. That is a correct statement.

Senator BAUCUS. Conrad. It's yours.

Senator BURNS. I'm going to ask a very pointed question. I sit on the Commerce Subcommittee, a Subcommittee on Communications,

and we're confronted with a lot of things. And I just want to clarify one thing here for my own information. OK?

We hear time and time again about the viability of prohibiting the sale of technology or equipment. Is that still a problem among the telephone companies ever since the breakup?

Mr. WALKER. I could comment from the regional operating company's point of view. There was a prohibition against the regional operating companies to enter into manufacturing that was expanded to include research and development which was considered to be part and parcel of manufacturing. Yes. We consider that to be a great difficulty because of the limited number of suppliers of that technology to our companies and our inability to control the equipment and the technology that we use.

I can expand, if you wish, sir.

Senator BURNS. I think that will suffice.

Now we have heard from all three of you that there has been definite benefit from deregulation and this type of thing, and I'm really interested in the fact that you're putting that fiber down up there. I'm really excited about that because I think you have taken a giant step forward without any help from very many people. You've just had a vision, and this is the way of the world and the direction we should be going and I want to congratulate you for that.

Do you have any idea when you're going to be operational up there?

Mr. OWENS. Yes, I do. Half of the system will be in service this fall into the Flathead Valley, and the balance of the project will be completed in the fall of 1991.

To address the costs envisioned and something that Dan has talked about, we're all subject to capital rationing within the availability of Government funds. We are subject to capital rationing and in making these investments compensatory, making them pay, we need to look to other services fiber optics is capable of carrying, more than voice grade telecommunications.

It's capable of huge amounts of data. It's capable of two-way interactive video for education purposes. The CATV industry doesn't want to hear me say it, but it's capable of carrying video signals and entertainment signals to rural areas where currently CATV is not offered.

These are all additional revenue sources to help pay for these advanced services, but we do have to have availability. Most companies in this country, I suspect, have to have availability of capital which this act envisions in order to accomplish this, but in my opinion the resources are there to pay for it once it's in place..

Senator BURNS. We all hear you. All businesses are driven by one thing, profit. We don't ever want to overlook that. If it's not profitable, it isn't going to go. Now that is American business, and no matter what Government does to make it profitable—we haven't been too profitable in Government either, by the way, obviously—but if you could change this formal legislation, are there some more ideas out there that should be included in this legislation to make it better? What would you do other than the two things that you alluded to in your testimony?

Mr. OWENS. We talked about digital switching and that is important. It's important because it's going to bring a lot of features into the communities, but one thing that digital switching doesn't do is connect one digital switch to another digital switch. OK? In order really to be effective, we've got to provide digital transmission, a digital facility to connect these digital switches so that we can shuttle data around, huge amounts of data at very high speeds, but you've got to have a digital transmission facility to do that. Perhaps that would be something that would be appropriate to consider in this legislation as well.

Senator BURNS. OK. Should that be considered in this? Or is that a regulation-type problem?

Mr. OWENS. I would think it would be a service just as these are.

Senator BURNS. Those are all subject to regulation.

Mr. OWENS. Oh, yes, but this is what we envision as the basics for telecommunications in the rural area to help it develop and prosper.

Senator BAUCUS. Do you recommend that it be included in my bill as one of the services that should be provided?

Mr. OWENS. I would specifically articulate it so that it's not just digital switching, but let's get the switches talking together with transmission, a digital transmission facility. Like fiber optic digital radio, that sort of thing.

Senator BURNS. I have a question. We need some suggestions on how to do this better, in other words, because we know this bill is not a panacea. It doesn't have all the answers, but what we are looking for is ideas, something we could do.

Ken, do you want to comment on that?

Mr. SPRAIN. I just had one more thought and it's something that, even in the industry is hard to remember. We need to maintain a clear distinction between divestiture and deregulation. I believe that deregulation is taking a terrible beating over the divestiture situation, and if everything is scrutinized to the point, "Is this a result of deregulation or is this a result of divestiture?" I think that problem becomes much simpler.

Senator BURNS. In your estimation, who should pay for R&D? New technology?

Mr. SPRAIN. As far as our company is concerned, we buy that from our vendors. We go out most of the time on a competitive bid for all of our services and for all of our equipment, and we would expect that to, you know, be included in our cost of procuring the equipment.

Mr. OWENS. Same here.

Mr. WALKER. We presently do. We would like to have the opportunity to invest in R&D for our service. Our situation is much different due to the volumes of equipment that we buy and our concern that we have really only two domestic suppliers, and the balance of the equipment is offshore.

Senator BURNS. Another question. Would you say it would be good legislation to make permanent a tax credit for R&D? We're talking about that now in the Commerce Committee.

Mr. WALKER. Beyond the scope of this bill, but yes, I do.

Senator BURNS. Beyond the scope of this. I'm just saying if we're going to move into a technological world—and we are. We are in

the information age now and we are out of the old industrial age. All indications are we're heading that way. That is just something that might facilitate R&D and speed this process up, but I just wondered if you have any ideas on that? Because it's being talked about.

Mr. SPRAIN. I don't.

Senator BURNS. Thank you very much. That's all.

Senator BAUCUS. Ken, you spoke about Breda, IA. Could you explain it a little more so that we can learn about what's possible in rural areas?

Mr. SPRAIN. It's attached to my testimony. It's just a Wall Street Journal article. What happened in Breda, IA was the farming community was suffering and so, I don't remember the name of the company, but they put in fiber optics to AT&T and that allowed, I believe it was a Denver insurance brokerage firm or something, to move into Breda, IA and employ most of the farm wives to work in a telecommunications center doing telemarketing because the labor rates were low, and the communications services were the same as you would find in any large city.

It just proved to be a good opportunity for them to run a profitable business venture. There's another North Dakota community that has had a similar experience.

Senator BAUCUS. I would like everyone to comment on what, realistically, is possible to achieve in Montana with more up-to-date telecommunications services. Will they really make a difference? Dan.

Mr. WALKER. I think there are manufacturers of the same—and by the same I mean companies such as Pategonia operating in Bozeman, Mars in Missoula. These are labor intensive.

Senator BAUCUS. I think most of us know Pategonia. Maybe some people are less familiar with Mars. Would you please explain what Mars is and does?

Mr. WALKER. Mars is an employment assistance agency.

Senator BAUCUS. Thank you.

Mr. WALKER. They use targeted jobs tax credits.

Senator BAUCUS. They provide on-line assistance to businesses.

Mr. WALKER. To make these jobs available and as labor intensive jobs, there could be lines for over the telephone, highly telecommunications-intensive business jobs. That is, I think, part of the intent of your bill. These things we need more of. They're clean industry. They're office work to a primary extent, as is Pategonia. Pategonia, as I understand, is a catalog sales operation. They do the sales. They do no manufacturing here as of yet, but these are labor-intensive telecommunications orientation jobs that can be done as well in Montana as anywhere in the world.

We have done better, Montana's workforce is one of the very best workforces in the Nation. I mean if you look at different States around the country and look at the quality of the workforce, I mean it's very clear that we're one of the best. Unfortunately, it's a well-kept secret nationwide. The quality of our workforce is like our schools in Montana. There are other States, too, but our State is homogeneously provided with some of the best schools in the country, and I hear time and time again, talking to businessmen who have moved into Montana—Pategonia is one outfit there and

in Missouri, they make golf bags. Wherever you go, over and over you hear the quality of the workforce which is so important and so much better than the workforce in almost every other part of the country, very clear.

Mr. SPRAIN. To answer your question, it's always nice to get an industry or a company that brings in people that—I believe this. If we're really going to be successful, we have to build a network that meets the individual needs.

Now we may be a little unique up and around Flathead Lake, but we have, as an example, in our serving area, a man that lives up on the lake that runs a large business in Missouri, but he doesn't want to live in Missouri. He wants to live around Kalispell, but he still wants to maintain his business because that's what made him successful.

And I believe that's what we have to really strive for is to offer these services to all of our customers.

I'm not interested in bringing in someone that has a thousand employees. I'd love to have a thousand employees move into the Valley, but our chances are pretty slim.

Senator BAUCUS. It is becoming increasingly clear that today, solid economies are built around small business, not large ones. Local tailoring and local customizing, to fit the local person, business, and community is what's considered to be important.

Thank you all very much.

[Recess.]

Senator BAUCUS. Let's get back to work here.

I appreciate everyone's indulgence for that long five minutes.

Our next panel consists of three folks basically involved with the public sector and presenting a different perspective on the problems we're addressing.

First, Mr. Wayne Foren. Mr. Foren is director of the Office of Economic Development of the SBA in Washington, D.C. Wayne, we're very happy to have you here today.

Second, Calvin Beale is a Demographer for the Economic Research Service at the USDA in Washington. I would also like to thank you for traveling all way to our State. We appreciate your being here, Mr. Beale.

Finally Mr. Mike Letson, director of the Montana Department of Commerce. His department is critical to Montana's economic recovery. Mike, thank you for coming to visit with us.

Let's begin with Mr. Foren.

STATEMENT OF WAYNE S. FOREN, DIRECTOR, OFFICE OF ECONOMIC DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC

Mr. FOREN. Mr. Chairman, Senator Burns. We appreciate the opportunity to be here today to appear before you and discuss S. 759 and S. 863.

We share your concerns about economic stress in rural areas. The Small Business Administration has had a rural development initiative for the last 2 years, and rural development will continue to be a priority of the agency as emphasized by Administrator En-

geleiter at her April 11, confirmation hearing before the Senate Small Business Committee.

In addition, the SBA is participating in the economic policy council's working group on rural development which is considering ways to better serve rural interests through existing programs. I'd like to make some comments this morning on S. 863 and will defer comments on S. 759 to the Department of Agriculture since this bill involves programs that fall within their purview.

Earlier this morning there was considerable discussion about SBA and what has been done to assist rural areas. Historically, SBA has played an important role in bringing capital to rural areas and assisting economic growth in these areas.

Our three main programs are the regular 7(a) Loan Program, the Surety Bond Guarantee Program, and the Development Company Loan Program. These three programs collectively represent about 84 percent of the $5.5 billion that was made available to small business concerns through SBA in 1988. Of that amount, $1.1 billion was provided to over 7,000 small business concerns in nonmetropolitan counties under these three programs.

I'd like to make some specific observations relative to S. 863, Mr. Chairman. We share many of your concerns as expressed in the findings set forth in section 1 of the bill, and we agree with the purpose that financial institutions and other organizations should be encouraged to invest in rural businesses and to create jobs in rural communities. We also agree that technical assistance is needed in many, but not all cases.

We understand that other bills either have been or will be introduced and will impact on rural access to capital. The Administration's working group is also considering actions to improve the rural economy. As each option is evaluated, we hope that a comprehensive rural access to capital bill will emerge that achieves your purposes in an efficient, effective, and economical manner and, at the same time, is consistent with the provisions of P.L. 100–590 and other legislation that impacts rural access to capital for small businesses.

The direct lending and grant programs proposed in S. 863 contribute directly to Federal outlays, which is a matter of concern. In addition, the administrative burden of the programs set forth in titles I and II on SBA and the Treasury Department is much greater than is warranted by the limited resources associated with these programs.

There will be three separate funds established at the Treasury Department to account for a total of $50 million. Two of these funds will be revolving funds. SBA will receive hundreds of work plans from a variety of types of applicants, many of whom will be unqualified to administer a revolving loan fund. Since there will be a national competition, applications will be received at the local level of SBA, and then the final decision will be made at the central office. Finally, each successful applicant must be monitored by SBA to assure that funds have been properly used.

I'd like to comment on each of the three titles in the bill. Title I provides a definition of a rural community. We generally agree with this definition which would establish a nonmetropolitan county as a rural area, and at the same time permits certain com-

munities in metro counties to also be considered rural. But we believe that certain changes are needed to this definition. More importantly, however, we believe it is critical that a clear definition for rural areas or a rural community be established and applied consistently to all Federal programs.

The definition set forth in section 101(4) of this bill is different from the definition in section 115(b) of P.L. 100-590 enacted last November, which was a reauthorization bill. We also note that a third definition as set forth in S. 851 was introduced by Senator Boschwitz, and that there are at least six different definitions for rural areas in Farmers Home Administration programs. To have comparable data for rural areas will require a comparable definition that applies across the Government.

Title I also contemplates that various public and nonprofit private entities serving rural communities will submit an economic development work plan to SBA, and a companion loan request to borrow funds to capitalize their revolving loan and investment fund. We strongly recommend that the eligible applicants be restricted to certified development companies that were certified by SBA pursuant to title V of the Small Business Investment Act of 1958, as amended.

This morning Eddie made a clear statement and a clear appeal to why certified development companies are a reasonable vehicle. Over the years we have found that the economic development districts and regional planning commissions cover one or more counties, and they're a natural vehicle for this kind of effort. SBA has 95 of those entities to be certified development companies.

A final comment relative to title I relates to the use of proceeds. We believe that eligible use of proceeds should be limited to loans to small business concerns. Equity investments and technical assistance should not be permitted. The revolving loan fund capital is borrowed from SBA since these funds must be repaid with interest, it would be very difficult to put money out on an equity basis or provide money for technical assistance and then be able to meet debt service. So there needs to be a matching in that regard.

Relative to title II, the Microbusiness Loan and Technical Assistance Fund, it is a program that makes financial and technical assistance available to businesses with no more than 15 full-time or equivalent employees, and a maximum loan of $25,000. A limited amount of technical assistance would also be available. This title also contemplates that various public and nonprofit private entities serving rural communities will submit combination grant and loan requests. We believe that the applicant for the Microbusiness Loan and Technical Assistance Fund should be limited to CDC's because of their public purpose and the fact that SBA regulates these entities. Also the $25,000 maximum loan level to any microbusiness, in our view, is simply too low to have any value.

The final comment I'd like to make relative to S. 863 has to do with title III, the transfer of a Small Business Lending Company status. This provision would require SBA to approve the transfer of a small business lending company—we call them SBLCs—status from an entity certified by SBA to another entity meeting the eligibility requirements set forth in section 120.302-1 of SBA's regulations.

We strongly oppose this provision if it means that we are required to approve a transfer of an SBLC certificate from one entity to another, or if we are required to approve the transfer of ownership and control of an entity that is an SBLC, but which is not in good standing with the regulatory requirements cited above.

Mr. Chairman, in conclusion, rural development is an important task. We applaud your efforts in this regard, but until the economic policy council's working group has had an opportunity to carefully consider this and other bills that affect access to capital in rural areas, it would be premature to either support or oppose this bill. We hope our comments and suggestions will be helpful to you.

Mr. Chairman, this concludes my comments. I'll be happy to answer any questions that the Subcommittee may have.

Senator BAUCUS. That you very much, Mr. Foren.

[The prepared statement of Mr. Foren follows:]

STATEMENT OF
WAYNE S. FOREN
DIRECTOR, OFFICE OF ECONOMIC DEVELOPMENT
SMALL BUSINESS ADMINISTRATION

BEFORE THE SUBCOMMITTEE ON
RURAL ECONOMY AND FAMILY FARMING
SMALL BUSINESS COMMITTEE
UNITED STATES SENATE
MAY 24, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS S. 759, THE "RURAL ACCESS TO TELECOMMUNICATIONS SERVICES ACT OF 1989" AND S. 863, THE "RURAL ACCESS TO CAPITAL ACT OF 1989".

WE SHARE YOUR CONCERN ABOUT THE ECONOMIC STRESS IN RURAL AREAS. THE SMALL BUSINESS ADMINISTRATION (SBA) HAS HAD A RURAL DEVELOPMENT INITIATIVE FOR THE LAST TWO YEARS, AND RURAL DEVELOPMENT WILL CONTINUE TO BE A PRIORITY OF THE AGENCY, AS EMPHASIZED BY ADMINISTRATOR ENGELEITER AT HER APRIL 11, 1989, CONFIRMATION HEARING BEFORE THE COMMITTEE. IN ADDITION, THE SBA IS PARTICIPATING IN THE ECONOMIC POLICY COUNCIL'S WORKING GROUP ON RURAL DEVELOPMENT, WHICH IS CONSIDERING WAYS TO BETTER SERVE RURAL INTERESTS THROUGH EXISTING PROGRAMS.

AS REQUESTED, I WOULD LIKE TO SHARE SOME THOUGHTS AS TO WHY PEOPLE ARE LEAVING RURAL AREAS. THEN I WOULD LIKE TO SUMMARIZE SBA'S CURRENT ACTIVITIES TO FOSTER SMALL BUSINESS DEVELOPMENT IN RURAL AREAS. FINALLY, I WOULD LIKE TO PROVIDE SOME COMMENTS AND SUGGESTIONS REGARDING SENATE BILL S. 863. SENATE BILL S. 759 CONCERNS ISSUES THAT COME UNDER THE PURVIEW OF THE U.S. DEPARTMENT OF AGRICULTURE. WE DEFER TO THE DEPARTMENT OF AGRICULTURE FOR COMMENTS ON THIS BILL.

THERE ARE NO NEW EXPLANATIONS AS TO WHY POPULATION IS LEAVING RURAL AREAS. PEOPLE LEAVE FOR BETTER JOB OPPORTUNITIES, LIFE STYLE AND CONSUMPTION POSSIBILITIES THAT URBAN AREAS PROVIDE, AND FOR OTHER REASONS. AN UNCERTAIN FUTURE FOR THE FAMILY FARM AND CHANGING TECHNOLOGY HAS CAUSED MANY TO LEAVE THE FARM OVER THE YEARS TO PURSUE OTHER OCCUPATIONS IN BUSINESS, INDUSTRY AND EDUCATION, MANY OF THESE PURSUITS HAVE BEEN IN URBAN AREAS. AS YOU KNOW, THE FACE OF RURAL AMERICA HAS CHANGED. RURAL DEVELOPMENT IS NO LONGER PREDOMINANTLY AGRICULTURE. RATHER, IT ALSO INVOLVES MINING, TIMBER, OIL, AND OTHER INDUSTRIES, SUCH AS TOURISM/RECREATION AND FISHING. THE PROPORTION OF RESIDENTS IN NONMETROPOLITAN COUNTIES FELL FROM 47.4% TO 26.5% FROM 1940 TO 1970, AND FROM 26.5% TO 23.5% FROM 1970 TO 1986.

THERE ARE MANY OPINIONS ABOUT HOW THE TREND OF PEOPLE LEAVING RURAL AREAS CAN BE REVERSED. IN SHORT, IF PEOPLE ARE GIVEN A REASON TO STAY OR TO RETURN TO RURAL COMMUNITIES, THEY WILL DO SO. THIS CAN INCLUDE QUALITY JOB OPPORTUNITIES, COMMUNITY AND OTHER RELATED SERVICES. I BELIEVE THE OUT-MIGRATION IS SLOWING, AND IN SOME RURAL STATES THERE IS A NET POPULATION INCREASE. MUCH OF THIS IS A RESULT OF ECONOMIC GROWTH OF METRO AREAS SPILLING OVER TO RURAL AREAS, SUCH AS IN NEW ENGLAND AND CALIFORNIA. SOME OF THE SLOW

DOWN IN THE OUT-MIGRATION IS DUE TO AN AWARENESS OF THE PROBLEMS IN RURAL AMERICA AND A DESIRE ON THE PART OF THE RURAL COMMUNITIES AND THEIR LEADERS TO DO SOMETHING ABOUT THE PROBLEM. A FOCUS ON BUSINESS DEVELOPMENT, BOTH SMALL AND LARGE, IS CRITICAL TO RURAL REVITALIZATION BECAUSE IT MEANS JOBS AND AN EXPANDED TAX BASE.

THIS LEADS ME TO MY SECOND POINT, WHICH ADDRESSES THE CURRENT ACTIVITIES OF SBA IN RURAL DEVELOPMENT. AS YOU KNOW, MR. CHAIRMAN, SBA HISTORICALLY HAS PLAYED AN IMPORTANT ROLE IN ASSISTING ECONOMIC GROWTH IN RURAL AREAS. A RECENT INTERNAL STUDY OF THE AGENCY'S MAJOR FINANCIAL PROGRAMS SHOWED A FAIRLY EQUITABLE MIX OF LOAN ACTIVITY IN BOTH METROPOLITAN AND NONMETROPOLITAN COUNTIES. USING THE 1986 NONMETROPOLITAN POPULATION FIGURE (23.5%) AS A BENCHMARK, THE SBA GENERATED A SIGNIFICANT PORTION OF ITS 1988 ACTIVITIES IN THESE NONMETROPOLITAN COUNTIES. THE REGULAR BUSINESS LOAN PROGRAM (7(A) PROGRAM) GENERATED 26.8% OF ITS ACTIVITY IN NONMETROPOLITAN COUNTIES. SIMILAR FIGURES WERE NOTED WITH THE SURETY BOND GUARANTEE PROGRAM, WHICH RECORDED 22.3%, AND WITH THE DEVELOPMENT COMPANY LOAN PROGRAM, WHICH HAD 19.2% OF ITS ACTIVITY IN NONMETROPOLITAN COUNTIES.

THESE THREE PROGRAMS REPRESENT A MAJOR PORTION OF ALL FINANCIAL ACTIVITY HANDLED BY THE AGENCY. THEY REPRESENTED 84% OF THE $5.5 BILLION PROVIDED FOR SMALL BUSINESS ASSISTANCE DURING FISCAL YEAR 1988.

OVER THE PAST THREE YEARS THIS FINANCIAL COMMITMENT TO NONMETROPOLITAN AREAS HAS REMAINED RELATIVELY STABLE. THE FOLLOWING CHARTS WILL SERVE TO ILLUSTRATE:

FISCAL YEAR	NUMBER TOTAL	NUMBER NONMETRO	AMOUNT TOTAL (000)	AMOUNT NONMETRO (000)	PERCENT OF NONMETRO ACTIVITY # - %	PERCENT OF NONMETRO ACTIVITY $ - %	PERCENT NONMETRO POPULATION
*7(A) LOAN PROGRAM							
1986	14,436	4,021	$2,579,794	$682,452	27.7%	26.5%	23.5%
1987	14,767	4,471	$2,774,671	$788,788	30.3%	28.4%	23.5%
1988	15,232	4,330	$3,001,095	$795,916	28.5%	26.5%	23.5%
CERTIFIED DEVELOPMENT COMPANY LOANS							
1986	1,455	287	$ 314,110	$ 61,180	20.0%	20.2%	23.5%
1987	1,438	279	$ 337,130	$ 57,944	19.0%	18.2%	23.5%
1988	1,172	223	$ 290,150	$ 52,675	19.0%	19.2%	23.5%
SURETY BOND GUARANTEE PROGRAM							
1986	11,421	2,678	$1,236,758	$280,690	23.4%	22.7%	23.5%
1987	10,740	2,582	$1,167,804	$272,309	24.0%	23.3%	23.5%
1988	11,048	2,591	$1,289,534	$295,780	23.4%	22.9%	23.5%

* DIRECT AND GUARANTEED LOANS, IN OUR GENERAL BUSINESS AND VETERAN CATEGORIES, ONLY.

IN 1988, SBA STARTED AN AGGRESSIVE RURAL DEVELOPMENT OUTREACH EFFORT. THE PRIMARY FOCUS OF THIS PROGRAM WAS THE DEVELOPMENT OF AN ACTION AGENDA BASED ON THE RECOMMENDATIONS OF REPRESENTATIVES FROM RURAL AREAS. DURING 1989 WE HAVE BEGUN TRANSLATING THOSE NEEDS INTO SPECIFIC PROJECTS DESIGNED TO MOVE INFORMATION, SUPPORT RESOURCES AND EDUCATIONAL ASSISTANCE DIRECTLY INTO RURAL AREAS.

THE FIRST OF THESE EFFORTS IS CURRENTLY UNDERWAY IN TENNESSEE, WITH THE DEPLOYMENT OF A NEW MOBILE SMALL BUSINESS ASSISTANCE CENTER. THIS MOBILE CENTER IS DESIGNED TO PLACE BUSINESS SUPPORT SERVICES DIRECTLY IN THE HANDS OF SMALL TOWN BUSINESS PEOPLE. AS PART OF A JOINT EFFORT, INVOLVING THE SMALL BUSINESS ADMINISTRATION AND THE TENNESSEE VALLEY AUTHORITY, THE MOBILE SMALL BUSINESS ASSISTANCE CENTER IS DESIGNED TO ASSIST NONMETRO AREAS IN JOB EXPANSION OPPORTUNITIES THROUGH THE DELIVERY OF TECHNICAL AND FINANCIAL ASSISTANCE PROGRAMS TO REMOTE AREAS.

WE FIRMLY BELIEVE THIS TYPE OF EFFORT WILL BEAR FRUIT. IT WILL PROVIDE RURAL BUSINESS PEOPLE AND POTENTIAL ENTREPRENEURS THE FULL RANGE OF SERVICES THEY SO DESPERATELY NEED. PERHAPS EVEN MORE IMPORTANT IS THE COOPERATIVE EFFORT BEING ESTABLISHED AMONG LOCAL, STATE AND FEDERAL AGENCIES. WE FIRMLY BELIEVE THESE JOINT PARTNERSHIPS WILL HELP SMALL BUSINESS GROWTH IN RURAL AREAS.

I WOULD NOW LIKE TO TAKE A FEW MOMENTS TO MAKE SOME SPECIFIC COMMENTS REGARDING S. 885, WHICH IS UNDER DISCUSSION TODAY.

S. 885, "RURAL ACCESS TO CAPITAL ACT OF 1989"

WE SHARE MANY OF YOUR CONCERNS AS EXPRESSED IN THE FINDINGS SET FORTH IN SECTION I OF THE S. 885, AND WE AGREE WITH THE PURPOSE THAT FINANCIAL INSTITUTIONS AND OTHER ORGANIZATIONS SHOULD BE ENCOURAGED TO INVEST IN RURAL BUSINESSES AND TO CREATE JOBS IN RURAL COMMUNITIES. WE ALSO AGREE THAT TECHNICAL ASSISTANCE IS NEEDED IN MANY, BUT NOT ALL, CASES. IT SHOULD BE NOTED THAT RURAL AMERICA HAS A DIVERSE SET OF ECONOMIES, RESOURCES, AND NEEDS.

WE UNDERSTAND THAT OTHER BILLS EITHER HAVE BEEN OR WILL BE INTRODUCED THAT WILL AFFECT RURAL ACCESS TO CAPITAL. THE ADMINISTRATION'S WORKING GROUP IS ALSO CONSIDERING ACTIONS TO IMPROVE THE RURAL ECONOMY. AS EACH OPTION IS EVALUATED, WE WOULD HOPE THAT A COMPREHENSIVE RURAL ACCESS TO CAPITAL BILL WOULD EMERGE THAT ACHIEVES YOUR PURPOSES IN AN EFFICIENT, EFFECTIVE AND ECONOMICAL MANNER AND, AT THE SAME TIME, BE CONSISTENT WITH THE PROVISIONS OF P.L. 100-590 AND OTHER LEGISLATION THAT IMPACTS IMPROVED ACCESS TO CAPITAL FOR RURAL SMALL BUSINESSES.

AS WE REVIEW POSSIBLE APPROACHES TO IMPROVING ACCESS TO CAPITAL, AND THEREBY CREATING JOBS, IN RURAL AMERICA, WE MUST EVALUATE BOTH THE COSTS AND BENEFITS OF VARIOUS APPROACHES. BOTH THE ADMINISTRATION AND CONGRESS CURRENTLY ARE FACING ENORMOUS CHALLENGES IN BALANCING COMPETING PRIORITIES FOR ALREADY EXISTING, DISCRETIONARY DOMESTIC SPENDING PROGRAMS. THIS MAKES THE BURDEN OF PROOF ALL THE MORE STRINGENT FOR CREATING NEW PROGRAMS AND INITIATIVES.

THE DIRECT LENDING AND GRANT PROGRAMS PROPOSED IN BILLS SUCH AS S. 863 CONTRIBUTE DIRECTLY TO FEDERAL OUTLAYS. IN ADDITION, THE ADMINISTRATIVE BURDEN OF THE PROGRAMS SET FORTH IN TITLES I AND II ON SBA AND THE TREASURY IS MUCH GREATER THAN IS WARRANTED BY THE LIMITED RESOURCES ASSOCIATED WITH THESE PROGRAMS. THERE WILL BE THREE SEPARATE FUNDS ESTABLISHED AT THE TREASURY DEPARTMENT TO ACCOUNT FOR A TOTAL OF $50 MILLION. TWO OF THESE FUNDS WILL BE REVOLVING FUNDS. SBA WILL RECEIVE HUNDREDS OF WORK PLANS FROM A VARIETY OF TYPES OF APPLICANTS, MANY OF WHOM WILL BE UNQUALIFIED TO ADMINISTER A REVOLVING LOAN FUND. SINCE THERE WILL BE A NATIONAL COMPETITION, APPLICATIONS WILL BE RECEIVED AT THE LOCAL LEVEL, AND THE FINAL DECISIONS WILL BE MADE BY THE CENTRAL OFFICE OF SBA. FINALLY, EACH SUCCESSFUL APPLICANT MUST BE MONITORED BY SBA TO ASSURE THAT FUNDS HAVE BEEN PROPERLY USED.

WE BELIEVE THAT THE SBA'S CURRENT CERTIFIED DEVELOPMENT COMPANY PROGRAM, ITS 7(A) LOAN PROGRAM, AND OTHER PROGRAMS ADMINISTERED BY THE DEPARTMENTS OF AGRICULTURE, HOUSING AND URBAN DEVELOPMENT, AND COMMERCE (ECONOMIC DEVELOPMENT ADMINISTRATION) PROVIDE MANY OF THE PROGRAM BENEFITS INTENDED BY S. 863, WITHOUT ESTABLISHING COSTLY NEW SPENDING PROGRAMS WITH SUBSTANTIAL ADMINISTRATIVE COSTS.

ALTHOUGH THE ADMINISTRATION HAS NOT YET FINALIZED A POSITION ON HOW BEST TO APPROACH IMPROVING ECONOMIC DEVELOPMENT IN RURAL AREAS, WE ARE GENERALLY OPPOSED TO NEW SPENDING PROGRAMS, SUCH AS THOSE PROPOSED IN S. 863. HOWEVER, THE ADMINISTRATION'S ENTERPRISE ZONE PROPOSAL IS A BETTER APPROACH BECAUSE IT INCLUDES LABOR AND CAPITAL-BASED TAX INCENTIVES AND REGULATORY RELIEF. OUR COMMENTS BELOW ON PARTICULAR ASPECTS OF THE PROPOSED BILL SHOULD BE VIEWED AS WAYS TO IMPROVE SUCH PROGRAMS, IF THEY WERE ENACTED, AND NOT NECESSARILY AS ENDORSEMENTS OF THE BILL'S PROVISIONS.

DEFINITION OF RURAL COMMUNITY

SECTION 101(4) OF THE BILL, BY DEFINITION, APPEARS TO ESTABLISH NONMETROPOLITAN COUNTIES AS RURAL AREAS AND, AT THE SAME TIME, PERMITS CERTAIN COMMUNITIES IN METRO COUNTIES TO BE CONSIDERED RURAL. WE AGREE WITH THIS APPROACH. THE MOST WIDELY-USED DEFINITION AND IDENTIFICATION OF NONMETROPOLITAN COUNTIES ARE THOSE THAT HAVE BEEN DEVELOPED BY THE ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE. EACH COUNTY IN THE U.S. HAS BEEN CLASSIFIED ACCORDING TO ONE OF 10 CODES, AND THOSE WITH AN AGGREGATE URBAN POPULATION OF LESS THAN 50,000 ARE CONSIDERED NONMETROPOLITAN. THUS, 2,334 OF THE NATION'S 3,096 COUNTIES (OR THEIR EQUIVALENTS) ARE CLASSIFIED AS NONMETROPOLITAN, REPRESENTING 23.55% OF THE NATION'S 1986 (EST.) POPULATION.

WE WOULD SUGGEST THAT SUCH NONMETROPOLITAN COUNTIES BE SUBSTITUTED FOR THE LANGUAGE IN SECTION 101(4)(A) OF THE BILL, AND THAT SUBSECTION 101(4)(B) BE REVISED TO PERMIT A POLITICAL SUBDIVISION (WITH A POPULATION OF 20,000 OR LESS), WHICH IS LOCATED IN A METRO COUNTY, AND WHICH IS DETERMINED BY SBA TO BE RURAL, TO BE INCLUDED.

WE BELIEVE IT IS CRITICAL THAT A CLEAR DEFINITION FOR A "RURAL AREA" OR "COMMUNITY" OR "LOCALITY" BE ESTABLISHED AND APPLIED CONSISTENTLY TO ALL FEDERAL PROGRAMS. THE DEFINITION SET FORTH IN SECTION 101(4) OF THE BILL IS DIFFERENT FROM THE DEFINITION PROVIDED IN SECTION 115(B) OF P.L. 100-590, ENACTED LAST NOVEMBER 5. WE ALSO NOTE THAT A THIRD DEFINITION IS SET FORTH IN S. 851, WHICH WAS INTRODUCED BY SENATOR BOSCHWITZ, AND THAT THERE APPEAR TO BE AT LEAST 6 DIFFERENT DEFINITIONS FOR A "RURAL AREA" IN THE FARMERS HOME ADMINISTRATION'S PROGRAMS.

TITLE I - PUBLIC AND PRIVATE RURAL PARTNERSHIP FUND

THIS TITLE CONTEMPLATES THAT VARIOUS PUBLIC AND NON-PROFIT PRIVATE ENTITIES SERVING RURAL COMMUNITIES (APPLICANTS) WOULD SUBMIT AN ECONOMIC DEVELOPMENT WORK PLAN TO SBA AND A LOAN REQUEST TO BORROW FUNDS TO CAPITALIZE THEIR REVOLVING LOAN AND INVESTMENT FUND. THE WORK PLAN WOULD DESCRIBE THE BUSINESSES WHICH THE APPLICANT PLANS TO ASSIST, THE TYPE OF ASSISTANCE TO BE PROVIDED (LOAN GUARANTEES, LOANS, EQUITY CAPITAL OR TECHNICAL ASSISTANCE), AND AN ESTIMATE OF JOBS TO BE CREATED OR RETAINED. SBA WOULD THEN AWARD LOANS TO APPLICANTS, BASED UPON A NATIONWIDE COMPETITION. SINCE THE AUTHORIZED LEVEL FOR THIS FUND WOULD BE $50 MILLION, AND THE MAXIMUM AMOUNT TO ANY APPLICANT IS $1 MILLION, WE WOULD EXPECT THERE TO BE BETWEEN 30 AND 50 SUCCESSFUL APPLICANTS.

ELIGIBLE APPLICANTS - WE STRONGLY RECOMMEND THAT ELIGIBLE APPLICANTS BE RESTRICTED TO DEVELOPMENT COMPANIES CERTIFIED BY SBA PURSUANT TO TITLE V OF THE SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED. THESE CERTIFIED DEVELOPMENT COMPANIES (CDCS) ARE ORGANIZATIONS THAT ARE REGULATED BY SBA. MOST CDCS ARE NON-PROFIT ORGANIZATIONS THAT PROVIDE FINANCIAL ASSISTANCE TO

SMALL BUSINESS CONCERNS AS A MEANS OF FOSTERING COMMUNITY ECONOMIC DEVELOPMENT. THEY PROVIDE FIXED ASSET FINANCING UNDER SBA'S SECTION 502 AND 504 LOAN PROGRAMS. IN ADDITION, MANY PACKAGE LOANS WHICH ARE MADE BY BANKS AND NON-BANK LENDERS AND ARE GUARANTEED BY SBA UNDER THE SECTION 7(A) BUSINESS LOAN PROGRAM, AND OTHERS ADMINISTER REVOLVING LOAN FUNDS THAT WERE CAPITALIZED WITH GRANTS FROM THE ECONOMIC DEVELOPMENT ADMINISTRATION AND OTHER SOURCES.

THE MEMBERSHIP OF A CDC IS COMPOSED OF FINANCIAL INSTITUTIONS, LOCAL GOVERNMENT, COMMUNITY ORGANIZATIONS AND BUSINESS ORGANIZATIONS (SUCH AS CHAMBERS OF COMMERCE, ELECTRIC OR TELEPHONE COOPERATIVES, AND OTHER UTILITIES, ETC.). OF THE 460 CDCS THAT ARE PRESENTLY CERTIFIED, 95 ARE ECONOMIC DEVELOPMENT DISTRICTS OR REGIONAL PLANNING COMMISSIONS THAT SERVE RURAL AMERICA. FREQUENTLY, THE ELIGIBLE APPLICANTS IDENTIFIED IN THE BILL ARE TYPICAL MEMBERS OF CDCS.

IT IS IMPORTANT THAT THE SUCCESSFUL APPLICANTS DEMONSTRATE THE CAPABILITY TO MAKE, CLOSE AND SERVICE TERM COMMERCIAL LOANS, SINCE THEY WOULD BE ADMINISTERING A REVOLVING LOAN FUND.

ELIGIBLE USE OF PROCEEDS - WE BELIEVE ELIGIBLE USE OF PROCEEDS SHOULD BE LIMITED TO LOANS TO SMALL BUSINESS CONCERNS, AND EQUITY INVESTMENTS AND TECHNICAL ASSISTANCE SHOULD NOT BE PERMITTED. IF THE FUNDS ARE MADE AVAILABLE TO THE APPLICANT BY SBA ON A LOAN BASIS, THESE FUNDS SHOULD BE RELOANED TO BORROWERS. OTHERWISE, THERE WILL NOT BE SUFFICIENT RESOURCES IN THE APPLICANT'S REVOLVING FUND TO MAKE LOAN REPAYMENT TO THE RURAL PARTNERSHIP FUND.

TITLE II - MICROBUSINESS LOAN AND TECHNICAL ASSISTANCE FUND (M L & T A FUND)

THIS IS A PROGRAM TO MAKE FINANCIAL AND TECHNICAL ASSISTANCE AVAILABLE TO BUSINESSES WITH NO MORE THAN 15 FULL-TIME (OR EQUIVALENT) EMPLOYEES, AND THE MAXIMUM LOAN WOULD BE $25,000. A LIMITED AMOUNT OF TECHNICAL ASSISTANCE WOULD ALSO BE AVAILABLE. IT IS CONTEMPLATED THAT VARIOUS PUBLIC AND NON-PROFIT PRIVATE ENTITIES SERVING A RURAL COMMUNITY (APPLICANTS) WOULD SUBMIT A COMBINATION GRANT AND LOAN REQUEST. THE REQUEST WOULD BE PURSUANT TO AN ECONOMIC DEVELOPMENT WORK PLAN, AND SBA WOULD THEN AWARD GRANTS AND LOANS TO APPLICANTS, BASED UPON A NATIONWIDE COMPETITION. SINCE THE BILL REQUIRES THAT SBA SELECT A TOTAL OF 50 ELIGIBLE APPLICANTS FOR THESE LOANS AND GRANTS, THE MAXIMUM AMOUNT WILL BE PROVIDED TO EACH APPLICANT. THEREFORE, THE GRANT WILL BE $100,000 FOR TECHNICAL ASSISTANCE, AND THE LOAN WILL BE FOR $300,000 TO CAPITALIZE A REVOLVING LOAN FUND. IN SHORT, EACH OF THE 50 SUCCESSFUL APPLICANTS WILL RECEIVE A TOTAL OF $400,000 FOR THEIR M L & T A FUND.

WE BELIEVE ELIGIBLE APPLICANTS FOR THE MICROBUSINESS LOAN AND TECHNICAL ASSISTANCE FUND SHOULD, ALSO, BE LIMITED TO LDCS BECAUSE OF THEIR PUBLIC PURPOSE AND THE FACT THAT THEY ARE REGULATED BY SBA. ALSO, THE $25,000 MAXIMUM LOAN LEVEL TO ANY MICROBUSINESS IS SIMPLY TOO LOW TO HAVE ANY APPRECIABLE OR SIGNIFICANT VALUE.

TITLE III - TRANSFER OF SMALL BUSINESS LENDING COMPANY STATUS

THIS PROVISION WOULD REQUIRE SBA TO APPROVE THE TRANSFER OF A SMALL BUSINESS LENDING COMPANY (SBLC) STATUS FROM AN ENTITY CERTIFIED BY SBA TO ANOTHER ENTITY MEETING THE ELIGIBILITY REQUIREMENTS SET FORTH IN SECTION 120.302-1 OF SBA REGULATIONS. WE STRONGLY OPPOSE THIS PROVISION. IF IT MEANS WE ARE

REQUIRED TO APPROVE A TRANSFER OF AN SBLC CERTIFICATE FROM ONE ENTITY TO ANOTHER, OR IF WE ARE REQUIRED TO APPROVE THE TRANSFER OF OWNERSHIP AND CONTROL OF AN ENTITY THAT IS AN SBLC BUT WHICH IS NOT IN GOOD STANDING WITH THE REQUIREMENTS OF THE ABOVE-CITED REGULATIONS.

THERE ARE 8 SBLCS THAT ARE NOT IN GOOD STANDING WITH SECTION 120.302-1 OF SBA REGULATIONS, AND ACTION IS BEING TAKEN TO REVOKE THE CERTIFICATES OF THESE ENTITIES.

ON JANUARY 4, 1982 SBA TERMINATED THE ELIGIBLITY PROVISION THAT WOULD PERMIT ADDITIONAL NON-BANK LENDERS, REGULATED SOLELY BY SBA (SBLCS), TO BE PARTICIPATING LENDERS UNDER THE 7(A) PROGRAM. IT IS OUR VIEW THAT SBA LACKS THE RESOURCES NECESSARY TO ADEQUATELY MONITOR ADDITIONAL LENDERS WHICH ARE NOT SUBJECT TO THE REGULATION AND SUPERVISION OF A FEDERAL OR STATE AUTHORITY, SUCH AS THE OFFICE OF THE COMPTROLLER OF THE CURRENCY OR A STATE BANKING DEPARTMENT.

CONCLUSION

IN CONCLUSION, RURAL DEVELOPMENT IS AN IMPORTANT TASK, AND WE APPLAUD YOUR EFFORTS. UNTIL THE ECONOMIC POLICY COUNCIL'S WORKING GROUP HAS HAD AN OPPORTUNITY TO CAREFULLY CONSIDER THIS, AND OTHER BILLS THAT AFFECT ACCESS TO CAPITAL IN RURAL AREAS, IT WOULD BE PREMATURE TO EITHER SUPPORT OR OPPOSE THIS BILL. HOWEVER, WE HOPE OUR COMMENTS AND SUGGESTIONS ARE HELPFUL.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED STATEMENT. I SHALL BE HAPPY TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE.

Senator BAUCUS. Next is Mr. Beale.

STATEMENT OF CALVIN L. BEALE, SENIOR DEMOGRAPHER, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. BEALE. Thank you, Mr. Chairman, Senator Burns.

I'm Calvin Beale from the Economic Research Service in the Department of Agriculture. I am a population analyst. I am glad to have the opportunity to make a statement on recent U.S. rural and small town population trends.

Senator BAUCUS. And we're happy to have you here. I don't know if we've ever had a demographer testify. At least I'm unaware of any before the Small Business Committee.

Mr. BEALE. No, I have not testified before this Committee before. Certainly one of the most striking social trends of our time was the revival of population growth in rural and small town communities in the 1970s. Montana, many parts of Montana shared in that, though not all parts.

During the 1970s we had probably about a net of 4½ million more people move into the nonmetropolitan counties of the United States than moved out, and this was entirely different from anything else experienced in the modern history of this country.

There were several things that seemed to come together at once to produce this. We had less displacement out of agriculture and other extractive industries. In fact we had a growth of employment in mining. We had a considerable decentralization of manufacturing that had begun in the 1960s and also a substantial growth of trade and service businesses partly stimulated by the activity in these other areas.

In addition, there seemed to be noneconomic circumstances that were working, too. Many people who moved into rural America, gave noneconomic reasons for doing so. Yes they needed employment, certainly. They needed a source of income if they were not retired, but they would give either negative views about the large cities or they had developed a more positive attitude about the merits of living in a small town or rural community.

We also had a good many people who retired in rural America, including parts of western Montana. But in the 1980s, this has changed and we have reverted back much more to the older pattern.

The economic recession of the 1980s was much worse in rural America than it was in metropolitan America, although I don't think this was widely understood. It was not just the agricultural crisis, as severe and prolonged as that was. It was also a decline in mining—both energy mining and metals mining—and the serious falloff in manufacturing activity in rural America. This recession continued after the national recovery, which was really basically a metropolitan recovery, began in 1983. Much of the worst part of the rural recession occurred after that, so we still have rural and small town unemployment rates nationally that are higher than those in metropolitan areas.

The percentage of people working just part time, but who want full-time jobs, is higher in the rural setting, and this is contrary to what the case used to be back in the 1970's.

As a result of this, whereas we had fewer than 500 rural counties declining in people in the 1970s, we have close to 1,300 that have declined in population between 1983 and 1987.

I would invite you—if you have copies of my testimony to look at maps at the back which show, I think, in a very striking way, the number and location of nonmetropolitan counties in the country. These are counties—referring to counties that are colored in solid black—that have declined in population.

If you look at the 1983 to 1987 map, you will see at once that it does involve more than half of the—Senator, I have this if——

Senator BAUCUS. I've got your testimony, but don't have your map.

Mr. BEALE. It's at the back if you—should be. Only three nonmetropolitan counties in the whole State of Iowa have had any population increase since 1983. Montana, I think has only two, Wheatland and Stillwater, that are east of the mountains. And the same situation is pretty much the same throughout the central plains, the farm belt.

The birth rate is not as high in rural America as it used to be 25 years ago, so it doesn't take as much outmigration to shift a county to depopulation. We simply don't have as much excess of births over deaths to offset migration.

Well, how do rural and small town communities correct the situation and retain their people? Certainly the good health of the traditional extractive industries is important, and yet we understand now that that's rarely going to result in growth of jobs. We're not going to have more people engaging in farming, per se, or timber work and probably not many more in mining except at the top of cycles.

I think the critical problem is the one of how do rural and small town communities get their share of the service economy and the trade economy, where national growth of employment is by far the highest?

I do at least see some progress in this area. I went to a rural development meeting, giving testimony just about a year ago in Missouri, and no one wanted to talk about anything except how to get more manufacturing. Yet manufacturing as a national source of employment is simply not growing. We know that even though manufacturing companies tend to be rather prosperous today, they do not employ as many people nationally as they did back in 1979.

So I think the efforts in rural telecommunications improvement, although they will help manufacturing firms unquestionably, do provide more hope for development of service industries.

I might add that in the material that Mr. Sprain referred to about Breda, IA, which was done by Bill Richards of the Wall Street Journal, his full article which his editor cut and did not publish, had one example from Wolf Point, MT relating to a firm there, as I understand from his conversations with me, dealt with someone involved in engineering who was using computer transmission of engineering designs.

Senator BAUCUS. That may be Woods Powr Grip.

Mr. BEALE. Unfortunately Montana got cut out of the story, but central to this problem is how do these rural areas confront the barriers of remoteness? And clearly telecommunications is the one way through which they can do this.

I want to note that residential preference surveys in the United States continue to show that there are many more people living in the metropolitan States and their suburbs than say they want to. There's a net of millions of people who would live in rural and small town communities and resume the migration toward such areas if economic conditions permitted it.

Now it's true that most of them would rather be within a closer distance to metropolitan centers than would be true of most of Montana, but nevertheless, there's a large minority of them for whom remoteness is not the issue at all.

So there is a support there, a latent support of people who would much prefer either to return to their rural origins, or even if they're city people, live in a smaller community if they felt that there was a means of doing so, and most of these people are not looking to maximize their incomes, but rather to maximize their noneconomic satisfactions.

I'm not in a policy-making position. I am in a research agency. Therefore, I cannot comment on the merits of either piece of legislation being discussed here. I gather that the Secretary's office would prefer to do this through the regular legislative report request.

But as a researcher for a rather long time now in rural demography and the causes of population trends, I have no difficulty in saying that it is essential for rural leaders to create the ability in rural and small town communities, however they do it, to compete for information and other service jobs, if the current trend of population to the cities and away from the rural areas is to be ended.

I think that concludes my testimony.

Senator BAUCUS. Thank you very much, Mr. Beale. Your testimony was very informative.

[The prepared statement of Mr. Beale follows:]

ATTENTION: TAMARA MC CANN

Herewith copy of my statement for for next Wednesday.
C. L. Beale

POPULATION TRENDS IN RURAL AND SMALL TOWN AMERICA SINCE 1980

Statement by Calvin L. Beale
Senior Demographer
Economic Research Service
U. S. Department of Agriculture
before the
Subcommittee on the Rural Economy and Family Farming
Senate Committee on Small Business
May 24, 1989

Mr. Chairman, and members of the Subcommittee, my name is Calvin L. Beale. I am a population analyst with the Economic Research Service, U.S.D.A. I am glad to have the opportunity to provide a statement on recent U.S. rural and small town population change.

In the 1970s, the revival of rural and small town population growth in much of the country was one of the most striking social trends of that time. It was also one of the most welcome, yet unforeseen. For years, rural leaders had puzzled over how to retain and attract people to their communities. The need for balanced growth had been a constant theme of the 1960s. Suddenly in most parts of the country, the long-sought stabilization and growth occurred. Now, in a reversal that is equally widespread and unpredicted, we have seen a return in the 1980s to rural outmigration and population decline. How serious is it? What seems to have brought it about?

Background: For a half century prior to 1970, the rural and small town or nonmetropolitan population was essentially stationary in size nationally. Urbanization has been the dominant trend of settlement in modern society. With advances in technology, fewer and fewer people have been needed to provide the farm products, minerals, and timber that have been the major sources of work in rural areas. Manufacturing, trade, services, and rising wealth have focused on the cities. In a dramatic change compressed within 30 years, the U. S. farm population fell from 30.5 million in 1940 to 9.7 million in 1970, a drop of more than two thirds. The rural nonfarm and small town population increased, but that growth was completely offset by the huge losses of farm people.

By 1970, several forces coincided to change this pattern that had come to seem so permanent. During the 1970s, there was less displacement of workers from agriculture and an increase in mining jobs. Manufacturing continued a decentralization begun earlier and smalltown trade and service businesses grew. Thus, work opportunities improved even though wage levels remained below metropolitan standards. Many people who chose to remain in or move to nonmetro communities gave quality-of-life reasons for their decision, having developed a favorable opinion of the merits of small community life and negative views about large cities. Related to this was the growth of the rural recreation

industry and a major rise in the number of people choosing to move to rural areas in retirement.

The result was a growth of population in nonmetro areas of 15.8 percent from 1970-80, compared with a 9.8 percent metro growth rate. By contrast, in the 1960s, nonmetro growth had been only one fourth as high as that in metro areas (4.4 percent vs. 17.7 percent). Hundreds of rural counties shifted from population loss in the 1960s to gain in the 1970s. It should be noted that there were many exceptions in the agricultural areas of the Great Plains, where not enough alternatives to farming and ranching could be found. Still, even here the frequency and rate of loss were reduced.

Nonmetro Growth Slowdown in the 1980s.--The hopeful picture of the 1970s did not last beyond 1980, when the general economic recession and the farm crisis can be said to have begun. Unemployment rose substantially and farm income fell heavily. As measured by unemployment, the recession worsened for over two years through the winter of 1982-83 and then began to moderate.

By 1983, it had become clear that the rural "turnaround" of the 1970s was over. From 1980-83, the nonmetro population increase (2.7 percent) was once again less than the metro rate (3.5 percent), and the number of nonmetro counties with population decline rose to 720 from a low of 464 in the 1970s. Even so, there were still more nonmetro counties growing at above average rates than declining, especially in the West and the Southern Plains.

It was precisely at this time, though, when the recovery in most of metropolitan America began to take hold, that a rapid deterioration occurred in the ability of nonmetro communities to retain or attract people. From 1983-87, nonmetro population growth dropped to 1.5 percent nationally, only a third of the metro growth of 4.6 percent.

All in all, 1,272 nonmetro counties (53 percent) had fewer residents in 1987 than they did in 1983. The average loss per county was not large, but the occurrence of loss was as widespread as during either the 1960s (53 percent), or 1950s (54 percent), when farm consolidation was at its peak. (Each decade is measured by the metro-nonmetro boundaries then in use).

The spread of decline in the 1980s and the location of affected areas is shown in the accompanying maps. Population decline in the 1970s was essentially limited to farming areas in the Great Plains and western Corn Belt and to the Mississippi Delta. From 1980-83, the losses in the Plains were fewer than in the 1970s, stemming at least in part from oil and gas activity, and probably also from the later arrival of the farm crisis into the wheat and range livestock areas than in the Corn Belt. Declines became much more common in the Corn Belt, however, during the early 1980s, especially in the eastern part where farming frequently

coexists with older manufacturing industries that were hard hit by the recession. Scattered areas of decline appeared in the West, usually linked to cutbacks in mining or timber work. Elsewhere, many new small clusters of declining counties appeared in the Lower South, the Ohio Valley, the Central Appalachians, and in Michigan. But, although decline was more common than it had been, the map of population change in the 1980-83 period was still characterized by vast nonmetro areas with growth more rapid than that of the U. S. as a whole. This was particularly true in the Mountain West, Oklahoma, Texas, and Florida -- all areas that had grown rapidly, by and large, in the 1970s.

In contrast, after 1983, counties with any growth at all became a rarity throughout the Great Plains, Corn Belt, and central and northern Appalachia. In Iowa, the quintessential farm State, 85 of 88 nonmetro counties declined in population from 1983-87, as outmovement more than offset any excess of births over deaths. Losses also became common in the Lower South and penetrated some Western regions where rapid growth had come to seem normal and inevitable, such as eastern Utah and western Colorado.

Mining Areas.--In attempting to understand these changes it is helpful to look at trends in different types of areas. Mining counties in particular shifted from growth to decline in 1983-87. During this period they lost 3.8 percent of their population. Total U. S. workers in oil and gas extraction fell by 32 percent from July 1983 through June 1987 as world oil prices dropped. Employment also declined in coal mining and in metallic minerals (except for gold). This unanticipated loss of work affected practically every rural mining district in the West and Plains, the entire states of Texas, Oklahoma, and Louisiana, and the coal fields of Appalachia.

Farming Areas.--Agricultural employment responded only belatedly to the farm crisis. It actually held steady in 1980-83, despite loss of income and a growing sense of alarm. But it then dropped by 200,000 jobs from 1983-87. In effect, it took several poor years in a row before many people moved into insolvency or became discouraged enough to leave the industry.

Farm income was propped up in the middle part of the decade by record farm program payments. However, farmers put exceptional amounts of this income into reducing debt, rather than spending it for consumer or producer needs. Farmers cut their debt by $39 billion from 1983-86 and reduced their cash expenditures by $16 billion from 1984-86. These actions contributed to restoring their solvency, but did little to alleviate the business depression in farm towns. Three fourths of all predominantly agricultural counties declined in population from 1983-87.

The farm population itself (as measured by people living on farms) decreased by one sixth from 1980-87, falling from 6.1 million to 5.0 million. This is a substantial loss, averaging 2.6 percent per year. Nevertheless, it is not as rapid a decline

as was seen in any of the three previous decades. The recent farm population losses have been very real, but they have not been of unprecedented size nationally.

One effect of the farm crisis has been to reduce the number of young farmers. During the 1970s, many young people entered agriculture as times were rather good, land values rose, credit was ample, and the large Baby Boom cohorts of farm children came of age. The number of persons under 35 years old who were solely or primarily self employed in agriculture grew from 265,000 in 1970 to 458,000 in 1982. Since then, however, the number has fallen back to 356,000 in 1988, presumably because of the financial problems encountered by young farmers during the decade and a lower rate of entry.

Manufacturing Areas.--Nonmetro manufacturing counties are not more numerous than farm counties, but are much more densely settled and contain about two fifths of the entire nonmetro population. They have an average population of 33,000 people compared with just 11,000 for farm counties, and thus have more urbanization and larger labor markets. This acts to provide more stability and diversification, and manufacturing counties are less likely than farm counties to have rapid rates of population change -- either of growth or loss.

Manufacturing was a main source of rural job growth and diversification in the 1970's. However, the business recession of 1980-83 was chiefly a goods producing recession, and national employment in manufacturing fell by 11 percent from its 1979 high to 1982. Manufacturing jobs began to recover in the spring of 1983, but by spring of 1985 were sagging again, aggravated by persistent trade deficits. In the last two years, there has been some further recovery, but manufacturing has still never returned to its 1979 level of employment.

Nonmetro manufacturing counties have had a slow overall growth in population (1.6 percent from 1983-87), as their jobs in trade and service activity have expanded, but they had a net outmovement of about 100,000 people in these years, as they failed to retain all of their excess of births over deaths.

Retirement Counties.--A notable exception to the pattern of low population growth or outright loss in nonmetro areas is the trend in retirement areas. There are nearly 500 nonmetro counties in which the older population grew rapidly in the 1970s from inmovement of retired people. They are very widespread, being found in 44 States. The largest concentrations are in Florida, the North Country of the Upper Great lakes, the Ozark-Ouachita region, Texas, the Southwest, and the Far West. They are rare in the open spaces of the Great Plains. Such counties are often also resort and recreation areas for younger age groups. They were the most rapidly growing class of nonmetro counties during the rural turnaround years of the 1970s and have continued to be so since 1980. Population in retirement counties

grew by 13.3 percent from 1980-87, far above the 7.4 percent rate of the Nation as a whole. The net inmovement of people of all ages into these counties during those years was over 1 million persons.

Retirement counties should be the least subject to the effects of economic recessions, because the income of a large segment of their population is shielded from unemployment, wage cuts, or other hardships of a business slump. They are not immune from problems, for the recreation industry is affected by business cycles, and these counties usually also contain some agriculture and manufacturing. But, the growth in the use of rural and small town communities for retirement purposes has been a major factor in providing jobs and income for many rural areas that otherwise would be in decline.

Lower Natural Increase.--There are two social characteristics of the nonmetro population that make it more susceptible to population decline today during periods of outmigration than was true in the past. I refer to the lower level of the birth rate, the aging of the population, and the smaller resulting margin of births over deaths. Thirty years ago the average nonmetro birth rate was somewhat more than twice as high as the death rate. A typical nonmetro county could have a substantial net outmovement of people without a decline in population, because the surplus births replenished the population. But rural families, like urban families, are much smaller today. So births have dropped. Yet, with the growth of the older popultion, deaths have not diminished. In Montana, for example, there were 11,000 more births than deaths 30 years ago. Last year (1988) the surplus was just 4,600. It only takes a moderate rate of net outmovement today to move a county (or a State) from growth to decline when the birth rate is low.

Future Prospects.--It is possible that the worst is over for most nonmetro areas in terms of loss of population associated with the unfavorable rural economic conditions of the early and mid-1980s. With the debt burden reduced, farmers' net worth has stabilized. The farm export market has expanded, surpluses of many commodities have been reduced, and most land values have begun to rise again. This does not foretell an increase in the farm population, though, for there is still excess capacity in farm output. But, if improved conditions are sustained, they should lead to resumed local investment and spending, and greater retention of population in farm counties.

Unemployment rates have finally dropped significantly in rural areas since mid-1987, although they are still above those found in metro areas. The decline in mining and manufacturing employment has ended. Under these circumstances there may be no further drop in the overall nonmetro population growth rate or further spread in the occurrence of outright decline.

We learned from the 1970s that there are indeed conditions under which small-scale communities can retain their natural increase of population and also attract new residents. But, we see now that major recessions in production industries can still have widespread and disproportionate effects on the population-supporting capacity of nonmetro counties.

Development efforts intended to provide more rural jobs and eliminate the need for outmigration must recognize that services and trade are the growing parts of the economy. For many small communities this means confronting the fundamental barrier to economic activity posed by remoteness, so that they can profit from the expanded economic activity taking place in America's cities.

I will turn now to some comments, as requested, about the role of modern telecommunications in reversing the outflow of people from rural and small town areas. In my view, solutions need to focus on overcoming the barriers of distance that presently inhibit the integration of rural businesses into the national and international economies. Improvements in telecommunications, when linked together with other private and public sector activities, should lead to greater opportunities for rural communities.

Status of Rural Telecommunications.--In order to participate fully in today's economy, the telecommunications infrastructure of rural America must be able to transport and switch voice, data and video information at a level of quality comparable to that found in urban America. In 1987, about 95 percent of Rural Electrification Administration phone subscribers had single party lines, which are necessary to transmit and receive data. Improvement is needed in other areas, however, including the following:

-availability of single-party lines, which is necessary to transmit and receive data (in 1987 more than 3 million subscriber phone lines, many of them rural, were multi-party);

-availability of digital switching, which is necessary for services such as touch tone dialing, custom calling and access to competitive long distance carriers (only 44 percent of rural communities had digital switching in 1986);

-quality of telephone service sufficient to allow for transmission of data (according to a 1986 Rural Electrification Administration survey, approximately 12 percent of rural subscriber lines in their sample fell below specifications).

While technically feasible, some of these improvements may not be economically feasible from the perspective of the private

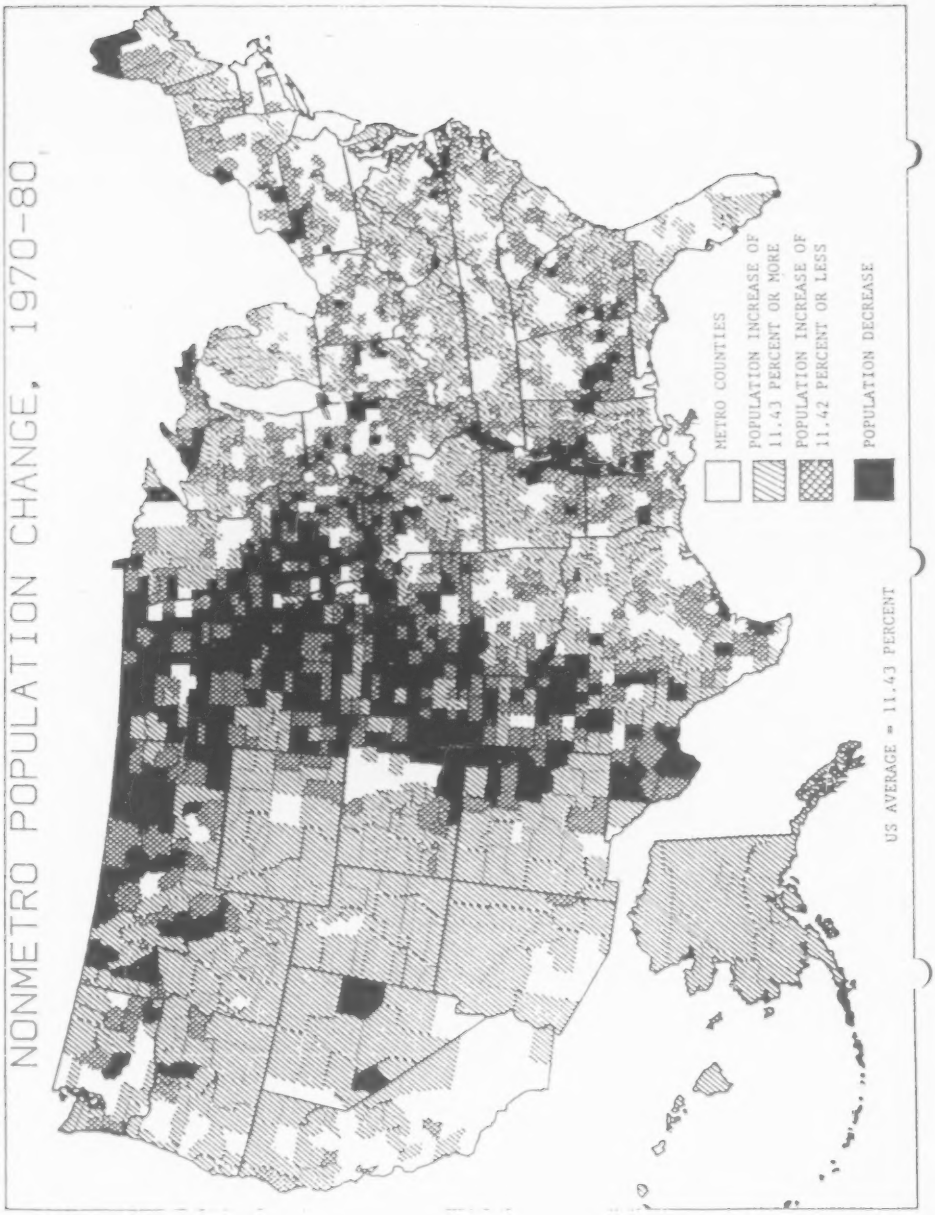
telecommunications industry because of low population densities.

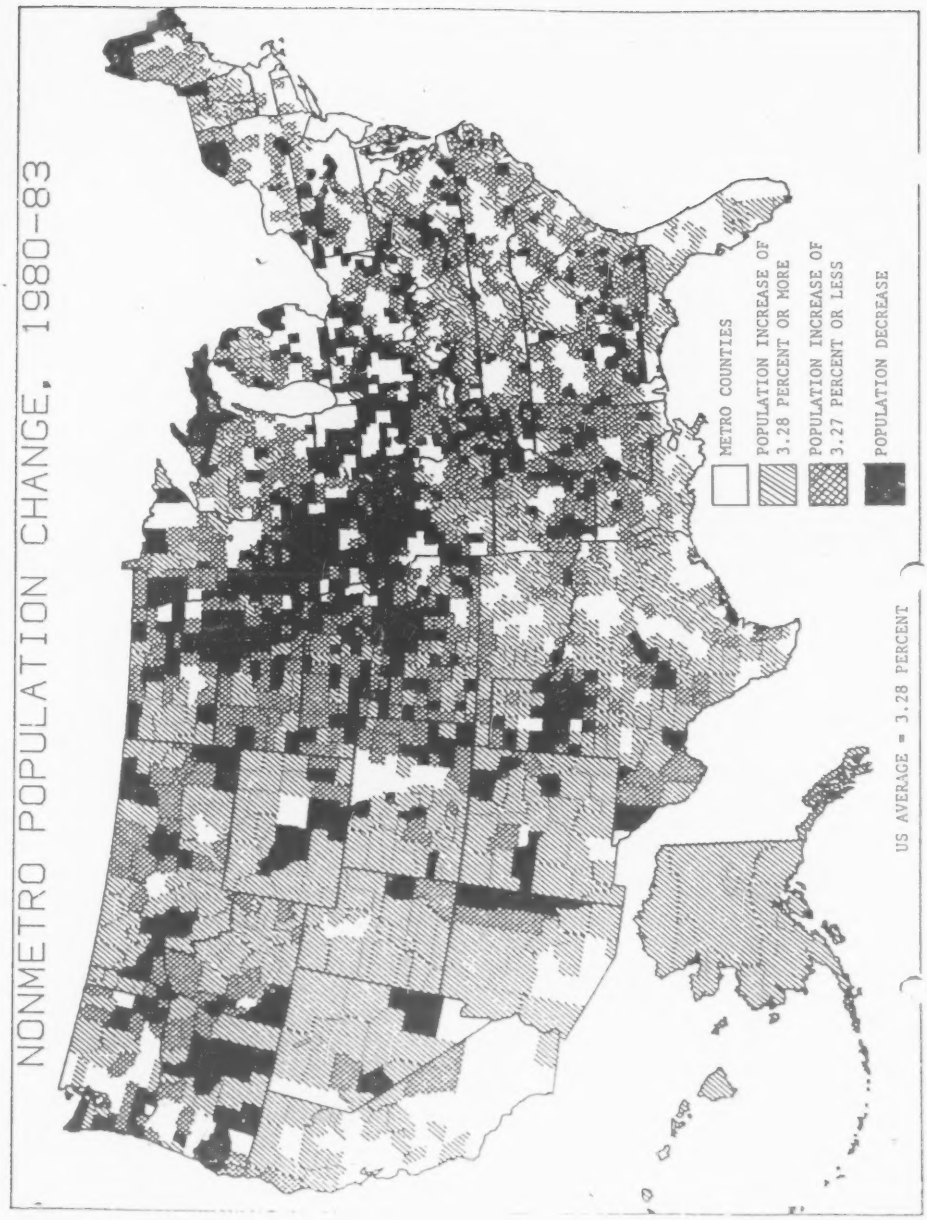
Telecommunications as a Stimulant to Rural Development.--The shift to an information-based service economy threatens to leave rural America behind. Increasingly, information service jobs depend on reliable, modern telecommunications capability. Because this capability "conquers space", such jobs can be located virtually anywhere there is adequate telecommunications infrastructure. Travel agency reservations, for example, can be taken as easily in a small town in North Dakota as in Philadelphia -- and often at less cost. Insurance claims can be processed as effectively in small town Iowa as in metroplitan California, as recent experience shows.

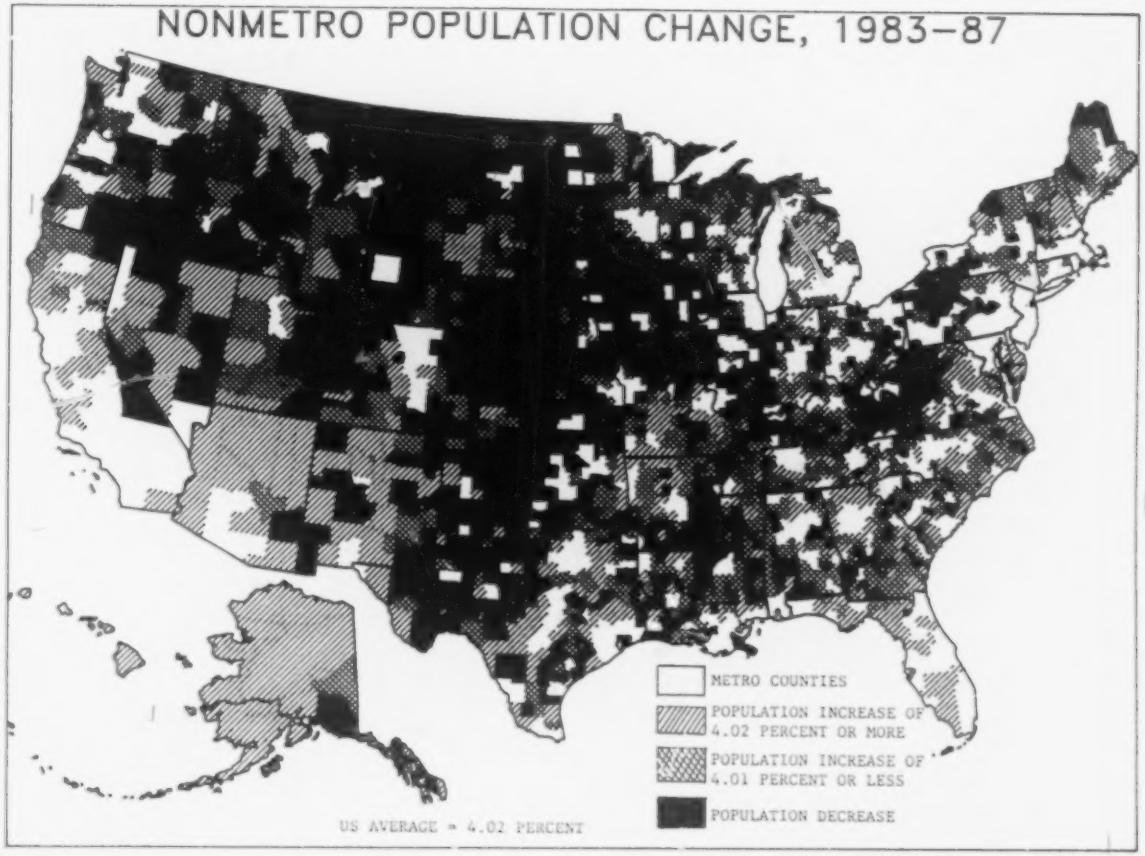
Traditional rural industries, such as agriculture, mining and manufacturing, which do not specialize in information service jobs may also benefit as the telecommunications infrastructure of rural areas is upgraded. The improvements could enhance these industries' access to distant markets and urban-based information sources, enlarging economic opportunities.

A strong rural economy also depends on an educated and healthy work force. Telecommunications advances can help strengthen this foundation. Via "distance learning networks", rural schools with small enrollments and limited budgets can offer subjects heretofore found only in large urban centers. Rural hospitals too small to warrant specialized medical services and expertise may be able to obtain them electronically from hospitals hundreds of miles away. In short, the development of human resources in rural America can be enhanced by access to more of the educational and medical services currently available only in urban America.

In terms of business opportunities, therefore, improved telecommunications offer the potential of increased rural participation in the national and international economy. It should be remembered, however, that infrastructure -- whether telecommunications or highways -- does not in and of itself generate economic development. Rather, it is the services that utilize that infrastructure which generate development. Therefore, an enhanced telecommunications infrastructure may not be sufficient to spur rural economic development but it is necessary.


NONMETRO POPULATION CHANGE, 1970-80
METRO COUNTIES
POPULATION INCREASE OF 11.43 PERCENT OR MORE
POPULATION INCREASE OF 11.42 PERCENT OR LESS
POPULATION DECREASE
US AVERAGE = 11.43 PERCENT


NONMETRO POPULATION CHANGE, 1980-83
METRO COUNTIES
POPULATION INCREASE OF 3.28 PERCENT OR MORE
POPULATION INCREASE OF 3.27 PERCENT OR LESS
POPULATION DECREASE
US AVERAGE = 3.28 PERCENT


NONMETRO POPULATION CHANGE, 1983–87
METRO COUNTIES
POPULATION INCREASE OF 4.02 PERCENT OR MORE
POPULATION INCREASE OF 4.01 PERCENT OR LESS
POPULATION DECREASE
US AVERAGE = 4.02 PERCENT

Senator BAUCUS. Mike, go ahead.

STATEMENT OF MICHAEL LETSON, DIRECTOR, MONTANA DEPARTMENT OF COMMERCE, HELENA, MT

Mr. LETSON. Senator Baucus, Senator Burns, other Members of the Committee that are absent, ladies and gentlemen. I am Michael Letson. I am the director of the Department of Commerce for the State of Montana. Thank you for having this hearing in Montana. We appreciate that very much.

As we all know, small business has been one of the positive points in Montana during the last few years. We have experienced some modest growth in this segment of our economy, but we should be experiencing even greater growth. There is no more difficult challenge than finding the right way to successfully help our citizenry and the small businessman and the would-be entrepreneur compete.

What should the role of our Government be in assisting small business? Montana is composed of a very diverse small business community and, therefore, a variety of styles is at work in Montana.

Some small business owners are developers of new ideas, but many are not. Numerous small business owners are in need of planning, marketing, and financial assistance. All of these functions, necessary to most businesses, are currently being offered by the State of Montana through the Department of Commerce.

We in Government often forget we don't create jobs. We only create the environment in which business can operate. Only business can create jobs.

Economic development has been a high profile topic in recent years with States attempting to steal businesses from other States to obtain the attendant jobs that go with them. Montana has lost more than her share of these companies and jobs over the past few years. With the realization that we were losing ground, everyone began calling for economic development.

What is economic development and how does it affect small business today? Many say small business needs grants, low interest loans, tax credit, and subsidies of all types and description.

Ninety-nine percent of the small businessmen I know, including myself—and I was a small businessman or have been for 36 years—have been successful in spite of the fact that we never utilized these kinds of Government assistance programs.

Economic development can be promoted and enhanced by Government through changes in the tax structure, reduction in red-tape, licensing assistance, governmental cooperation with business and an understanding that business creates jobs, taxes, and profits—all of which are essential to our State and its well-being.

In fact the best thing that could be done for small business in Montana would be the elimination of all personal property taxes. This alone would create a much more competitive environment in which to operate.

On the surface, low interest loans seem to be attractive for small business, but who do they really benefit? They aren't appealing to the grantor as the interest rate is a subsidy and is a gift.

The grantee may well be a recipient of an unfair advantage over other competitors not so favored by a subsidy. A low interest loan may appear to be advantageous to a small businessman, but how well can he compete in our global economy if he needs a below-market rate to survive?

Also I must add that many loans made by the Government are never repaid. Government is neither a banker nor an experienced lender. Rather it is a collector of taxes and a provider of services which cannot be offered elsewhere. Government is not a lender of last resort. It is a creator of the environment.

Capital and its access are very real problems in Montana. Our banks have always maintained a very conservative stance and have never aggressively pursued small or emerging businesses. Too many banks have been collateral lenders.

On occasion, Government can be successful in entering the arena which is often and best served by the private sectors. A good example of this is a grant that the Montana Department of Commerce recently made to the town of Wolf Point enabling the retention of a major employer in that community—Woods Powr Grip.

Mr. BEALE. This is the same?

Senator BAUCUS. [Affirmative nod.]

Mr. LETSON. However, too often Government interference can lead to uncertainty and collapse. During the last legislative session, a microbusiness finance bill was introduced at our State legislature. It was passed but left unfunded.

We at the Department of Commerce wanted to experiment with some pilot programs but proceeded very cautiously as most people are not experienced lenders. That is probably the largest single difficulty with Government loans. They are dispensed by unqualified lenders. Thus losses generally result.

Our role in assisting small business must then center around planning assistance, financial understanding, direct marketing help, and education. One area in Montana where I see a specific need is in marketing education. We have never had to compete in a global economy before today, but today and tomorrow we must be ready to compete. We're spending a great deal of State funds in working with the Japanese, Chinese and all of the Pacific rim countries. We must be ready to compete.

Europe becomes a common and mighty marketing force in 1992. We must be prepared to compete. The Canadian free trade agreement will open up our border as well as theirs. We must be set to compete.

Education and environment are the two main ingredients in any workable plan. If we need to subsidize our businessmen, we cannot compete in a global economy. As providers and directors of economic and business assistance, we must be very careful not to give the recipients assistance that will restrict their growth or limit their potential.

Montana has been virtually undiscovered for most of its existence because of its geographic location, its small employment base, its transportation system, and its general provincialism, but we have made great strides forward.

The advent of the Telefax machine has made it possible for Montana to be as close to Tokyo and Paris as it is to New York. I'm

confident Montana will see new and tangible results in economic development and its tourism promotions during the next few years. Our State is gifted with competent leadership which has a desire to excel.

In closing I believe that marketing and economic development and assistance are extremely important areas which require deft hands to dispense. We cannot solve our problems in Montana by blindly distributing funding. The appetite becomes insatiable much like the schools have exhibited.

Please consider your actions very carefully as you deliberate on what new programs you feel will help Montana's small business development and expansion.

I personally oppose interest rate subsidies.

I personally oppose most Government give-away programs.

I personally oppose most Government meddling in the private sector under the guise of fine tuning.

I also personally support programs for technical assistance and education of our State's small businessmen and businesswomen and feel our future depends on the ability to prepare for and compete in a global economy.

Thank you very much.

Senator BAUCUS. Thank you, Mike.

[The prepared statement of Mr. Letson follows:]

TESTIMONY ON SMALL BUSINESS

SENATOR BAUCUS, SENATOR BURNS, MEMBERS OF THE COMMITTEE, LADIES AND GENTLEMEN--MY NAME IS MICHAEL LETSON, I AM THE DIRECTOR OF THE MONTANA DEPARTMENT OF COMMERCE.

AS WE ALL KNOW, SMALL BUSINESS HAS BEEN ONE OF THE POSITIVE POINTS IN MONTANA DURING THE LAST FEW YEARS. WE HAVE EXPERIENCED SOME MODEST GROWTH IN THIS SEGMENT OF OUR ECONOMY BUT WE SHOULD BE EXPERIENCING EVEN GREATER GROWTH. THERE IS NO MORE DIFFICULT CHALLENGE THAN FINDING THE RIGHT WAY TO SUCCESSFULLY HELP OUR CITIZENRY, AND THE SMALL BUSINESSMAN AND WOULD-BE ENTREPRENEUR COMPETE.

WHAT SHOULD THE ROLE OF OUR STATE GOVERNMENT BE IN ASSISTING SMALL BUSINESS? MONTANA IS COMPOSED OF A VERY DIVERSE SMALL BUSINESS COMMUNITY AND, THEREFORE, A VARIETY OF STYLES IS AT WORK IN MONTANA. SOME SMALL BUSINESS OWNERS ARE DEVELOPERS OF NEW IDEAS BUT MANY ARE NOT. NUMEROUS SMALL BUSINESS OWNERS ARE IN NEED OF PLANNING, MARKETING AND FINANCIAL ASSISTANCE. ALL OF THESE FUNCTIONS, NECESSARY TO MOST BUSINESSES, ARE CURRENTLY BEING OFFERED BY THE STATE OF MONTANA THROUGH THE DEPARTMENT OF COMMERCE. WE, IN GOVERNMENT, OFTEN FORGET WE DON'T CREATE JOBS. WE ONLY CREATE THE ENVIRONMENT IN WHICH BUSINESS CAN OPERATE--ONLY BUSINESS CAN CREATE JOBS.

ECONOMIC DEVELOPMENT HAS BEEN A HIGH PROFILE TOPIC IN RECENT YEARS WITH STATES ATTEMPTING TO STEAL BUSINESSES FROM OTHER STATES TO OBTAIN THE ATTENDANT JOBS THAT GO WITH THEM. MONTANA HAS LOST MORE THAN HER SHARE OF THESE COMPANIES AND JOBS OVER THE PAST FEW YEARS. WITH THE REALIZATION THAT WE WERE LOSING GROUND, EVERYONE BEGAN CALLING FOR ECONOMIC DEVELOPMENT.

WHAT IS ECONOMIC DEVELOPMENT AND HOW DOES IT AFFECT SMALL BUSINESS TODAY? MANY SAY SMALL BUSINESS NEEDS GRANTS, LOW INTEREST LOANS, TAX CREDITS AND

SUBSIDIES OF ALL TYPES AND DESCRIPTIONS. NINETY-NINE PERCENT OF THE SMALL BUSINESSMEN I KNOW, INCLUDING MYSELF, HAVE BEEN SUCCESSFUL IN SPITE OF THE FACT THAT WE HAVE NEVER UTILIZED THESE KINDS OF GOVERNMENT ASSISTANCE PROGRAMS.

ECONOMIC DEVELOPMENT CAN BE PROMOTED AND ENHANCED BY GOVERNMENT THROUGH CHANGES IN TAX STRUCTURE, REDUCTION IN RED TAPE, LICENSING ASSISTANCE, GOVERNMENTAL COOPERATION WITH BUSINESS AND AN UNDERSTANDING THAT BUSINESS CREATES JOBS, TAXES AND PROFITS--ALL OF WHICH ARE ESSENTIAL TO OUR STATE AND ITS WELL BEING. IN FACT, THE BEST THAT COULD BE DONE FOR SMALL BUSINESS IN THE MONTANA WOULD BE THE ELIMINATION OF ALL PERSONAL PROPERTY TAXES. THIS ALONE WOULD CREATE A MUCH MORE COMPETITIVE ENVIRONMENT IN WHICH TO OPERATE.

ON THE SURFACE, LOW INTEREST LOANS SEEM TO BE ATTRACTIVE FOR SMALL BUSINESS BUT WHO DO THEY BENEFIT? THEY AREN'T APPEALING TO THE GRANTOR AS THE INTEREST RATE SUBSIDY IS A GIFT. THE GRANTEE MAY WELL BE A RECIPIENT OF AN UNFAIR ADVANTAGE OVER OTHER COMPETITORS NOT SO FAVORED BY A SUBSIDY. A LOW INTEREST LOAN MAY APPEAR TO BE ADVANTAGEOUS TO THE SMALL BUSINESSMAN BUT HOW WELL CAN HE COMPETE IN OUR GLOBAL ECONOMY IF HE NEEDS A BELOW-MARKET RATE TO SURVIVE? ALSO, I MUST ADD THAT MANY LOANS MADE BY THE GOVERNMENT ARE NEVER REPAID. GOVERNMENT IS NEITHER A BANKER NOR AN EXPERIENCED LENDER, RATHER, IT IS A COLLECTOR OF TAXES AND A PROVIDER OF SERVICES WHICH CANNOT BE OFFERED ELSEWHERE. GOVERNMENT IS NOT A LENDER OF LAST RESORT--IT IS A CREATOR OF THE ENVIRONMENT.

CAPITAL AND ITS ACCESS ARE VERY REAL PROBLEMS IN MONTANA. OUR BANKS HAVE ALWAYS MAINTAINED A CONSERVATIVE STANCE AND HAVE NEVER AGGRESSIVELY PURSUED SMALL OR EMERGING BUSINESSES. TOO MANY HAVE BEEN COLLATERAL LENDERS.

ON OCCASION, GOVERNMENT CAN BE SUCCESSFUL IN ENTERING THE ARENA WHICH IS OFTEN AND BEST SERVED BY THE PRIVATE SECTOR. AN GOOD EXAMPLE OF THIS IS

A GRANT THE MONTANA DEPARTMENT OF COMMERCE RECENTLY MADE TO THE TOWN OF WOLF POINT ENABLING THE RETENTION OF A MAJOR EMPLOYER IN THAT COMMUNITY--WOODS POWER GRIP.

HOWEVER, TOO OFTEN GOVERNMENT INTERFERENCE CAN LEAD TO ECONOMIC UNCERTAINTY AND COLLAPSE. DURING THE LAST LEGISLATIVE SESSION, A MICRO BUSINESS FINANCE BILL WAS INTRODUCED. IT WAS PASSED BUT LEFT UNFUNDED. WE, AT THE DEPARTMENT OF COMMERCE, WANTED TO EXPERIMENT WITH SOME PILOT PROGRAMS BUT PROCEEDED VERY CAUTIOUSLY AS MOST PEOPLE ARE NOT EXPERIENCED LENDERS. THAT IS PROBABLY THE SINGLE LARGEST DIFFICULTY WITH GOVERNMENT LOANS--THEY ARE DISPENSED BY UNQUALIFIED LENDERS, THUS, LOSSES RESULT.

OUR ROLE IN ASSISTING SMALL BUSINESS THEN MUST CENTER AROUND PLANNING ASSISTANCE, FINANCIAL UNDERSTANDING AND DIRECT MARKETING HELP AND EDUCATION. ONE AREA IN MONTANA WHERE I SEE A SPECIFIC NEED IS IN MARKETING EDUCATION. WE HAVE NEVER HAD TO COMPETE IN A GLOBAL ECONOMY BEFORE BUT TODAY AND TOMORROW WE MUST BE READY TO COMPETE. WE ARE SPENDING A GREAT DEAL OF STATE FUNDS IN WORKING WITH THE JAPANESE, CHINESE AND ALL OF THE PACIFIC RIM COUNTRIES--WE MUST BE READY TO COMPETE! EUROPE BECOMES A COMMON AND MIGHTY MARKETING FORCE IN 1992--WE MUST BE PREPARED TO COMPETE! THE CANADIAN FREE TRADE AGREEMENT WILL OPEN UP OUR BORDER AS WELL AS THEIRS--WE MUST BE SET TO COMPETE!

EDUCATION AND ENVIRONMENT ARE THE TWO MAIN INGREDIENTS IN ANY WORKABLE PLAN. IF WE NEED TO SUBSIDIZE OUR BUSINESSMEN, WE CANNOT COMPETE IN A GLOBAL ECONOMY. AS PROVIDERS AND DIRECTORS OF ECONOMIC AND BUSINESS ASSISTANCE, WE MUST BE VERY CAREFUL NOT TO GIVE THE RECIPIENTS ASSISTANCE THAT WILL RESTRICT THEIR GROWTH OR LIMIT THEIR POTENTIAL.

MONTANA HAS BEEN VIRTUALLY UNDISCOVERED FOR MOST OF ITS EXISTENCE BECAUSE OF ITS GEOGRAPHIC LOCATION, ITS SMALL EMPLOYMENT BASE, ITS TRANSPORTATION SYSTEM AND ITS GENERAL PROVINCIALISM. BUT, WE HAVE MADE GREAT STRIDES

FORWARD. THE ADVENT OF THE TELEFAX MACHINE HAS MADE IT POSSIBLE FOR MONTANA TO BE AS CLOSE TO TOKYO AND PARIS AS IT IS TO NEW YORK. I AM CONFIDENT MONTANA WILL SEE NEW AND TANGIBLE RESULTS IN ECONOMIC DEVELOPMENT AND TOURISM PROMOTION DURING THE NEXT FEW YEARS. OUR STATE IS GIFTED WITH A COMPETENT LEADERSHIP WHICH HAS A DESIRE TO EXCEL.

IN CLOSING, I BELIEVE THAT MARKETING, AND ECONOMIC DEVELOPMENT AND ASSISTANCE ARE EXTREMELY IMPORTANT AREAS WHICH REQUIRE DEFT HANDS TO DISPENSE. WE CANNOT SOLVE OUR PROBLEMS IN MONTANA BY BLINDLY DISTRIBUTING FUNDING. THE APPETITE BECOMES INSATIABLE MUCH LIKE THE SCHOOLS HAVE EXHIBITED. PLEASE CONSIDER YOUR ACTIONS VERY CAREFULLY AS YOU DELIBERATE ON WHAT NEW PROGRAMS YOU FEEL WILL HELP MONTANA'S SMALL BUSINESS DEVELOPMENT AND EXPANSION.

I PERSONALLY OPPOSE INTEREST RATE SUBSIDIES.

I PERSONALLY OPPOSE MOST GOVERNMENT GIVE-AWAY PROGRAMS.

I PERSONALLY OPPOSE MOST GOVERNMENT MEDDLING IN THE PRIVATE SECTOR UNDER THE GUISE OF FINE TUNING.

I PERSONALLY SUPPORT PROGRAMS FOR TECHNICAL ASSISTANCE AND EDUCATION OF OUR STATE'S SMALL BUSINESSMEN AND WOMEN AND FEEL OUR FUTURE DEPENDS ON OUR ABILITY TO PREPARE FOR AND COMPETE IN A GLOBAL ECONOMY.

THANK YOU.

Senator BAUCUS. Mr. Foren, first I want to compliment the SBA. The SBA, I think, has done a good job for Montana. I am sure that is true in other parts of the country, but it's certainly true in our State.

What success overall has SBA had in affirmative efforts to help provide capital directly or indirectly to rural areas? I know you've worked hard on Access 88. How successful has it been?

My impression is that it's still in the formative stages.

Mr. FOREN. Access 88 to which you refer was a effort to try to focus on the problems and find out what the problems were. The hearings and the roundtables brought together people, and conclusions were drawn from those initiatives. We are now trying to get information out and find ways to help on rural areas with our programs.

One of the efforts that's nonfinancial is the idea of a van that can be taken to rural areas. It's the Tennessee project.

Senator BAUCUS. Would you expand on that, please?

Mr. FOREN. Well, that's a project where a trailer is equipped with information on SBA programs. It will be hauled around from rural community to rural community, so that rather than people going from the eastern part of Montana, let's say, to Helena to find out about the SBA programs, that van could be taken to a community in eastern Montana, and the businessmen there go to that center and find out what SBA has to offer and how they could receive assistance. So it's the information transfer.

Senator BAUCUS. It's an information service pilot project of some kind.

Mr. FOREN. It's a pilot project.

Senator BAUCUS. In Tennessee but it's not an effort to help provide more capital.

Mr. FOREN. No. That really has nothing to do with capital as such. The 7(a) Program has been the major source of capital to small businesses.

As I referred to in my testimony, there are the three programs: The 7(a) Program; the Surety Bond Guarantee Program; and the 504 Program. In last year, 1988, over $1.1 billion was invested through these programs in nonmetro counties, which is what we consider to be rural areas. That is a significant amount of our capital.

Now in the Developing Company Loan Program, we have had some concerns about States like Montana, very frankly. The Certified Development Company Program has not been successful here. We have had several certified development companies. None of them have really taken off. The program has been there, we just didn't have a successful model.

I was heartened to hear the discussion this morning. This is a new application coming in, and we will give it timely service in terms of making a decision whether to certify the company.

Senator BAUCUS. He seemed pretty enthusiastic, Mr. Leuthold.

Mr. FOREN. Yes, and the key to it all is people. You've got to have people that know programs and know how to access capital to be able to marshal those resources for small business. You've got the 7(a) Program; you've got the 504 Program with an SBA; you've

got the Surety Bond Guarantee Program; you have the SBIC Venture Capital Program. You've got a variety of programs. The key is to find a way of marshalling those resources so that they can be accessed by small business concerns. And that in the nutshell is the role of a Certified Development Company.

Senator BAUCUS. Now you said something else that I found a bit surprising. In the microbusiness loan provisions, you felt that a $25,000 limit was too low?

Mr. FOREN. As a cap.

Senator BAUCUS. As a cap. I was a bit surprised because an earlier witness this morning--I'm sure you heard him— Mr. Jim Scott of Billings thought that it should not go any higher than $25,000. And he saw a real need for small loans below $25,000.

Help me, if you can. Tell me your reasons for your point of view.

Mr. FOREN. It's hard to imagine even in a rural area what you do with less than $25,000, but when you look at it from an administrative standpoint, as was mentioned in earlier testimony, small loans are very costly to——

Senator BAUCUS. I think that's his reason——

Mr. FOREN [continuing]. To put on the books.

Senator BAUCUS. [continuing]. To cut down the cost of small loans.

Mr. FOREN. Right, and the processing time it takes to make a decision upon a small loan of $25,000 or $30,000-$40,000, it takes as much effort to process a $100,000 or $200,000 loan almost. You've got to determine capability of repayment, and with a larger company, you typically have better records and information, but that really has nothing to do, I guess, with the size of the loan.

But we feel that—although you're talking now about a cap, not a floor—but if you're going to have a cap, if it's going to be effective, it should move up to somewhere around $50,000.

In the reauthorization bill for the 7(a) Program, for example, it talks about a small loan program and it sets $50,000 as the threshold ceiling.

Sure, you do loans smaller than that, but if you raise that from say $25,000 to $50,000, you're going to capture opportunities to assist maybe more businesses that need assistance than you would at the $25,000 level.

I guess we're saying a couple of things about the $25,000 level. You're crowding out businesses that really should get that kind of assistance, it's very costly to put those small loans on the books. Also, $20,000-$25,000 is not a whole lot of money to do anything with.

Senator BAUCUS. I agree. I wish Mr. Scott were here because he seemed to feel fairly strongly about not going above that figure.

Now, I'd like to talk a little about telecommunications. Mr. Beale indicated that we need an affirmative effort to provide up-to-date telecommunications services to rural areas to encourage people who live in the suburbs to move out to the countryside. He indicated that if these smaller communities are going to prosper in the future, they're going to have to have much better telecommunications facilities. Is that——

Mr. BEALE. I think they have to be able to partake more of the service side of the economy, rather than just the goods-producing

side. And rural areas have done that to a considerable extent, I think notably in developing resort and recreation businesses which are, after all, a service industry, and retirement businesses.

But the country has just been moving so very rapidly today in terms of information services. There's a good student of this out at Washington State University, Don Dillman, who has found, I noticed in a recent article, that something like 40 percent of all the purchases, I think, being made by business today in terms of equipment, relate to information processing and computers; and this is up from 20 percent just 10 years ago.

So to me it seems to be more difficult perhaps, or at least I thought so until last year, for rural areas to compete in the service economy than it had been in the manufacturing arena.

But some of the examples, some of the uses of the service economy now being located in rural areas, such as those given in the writeups in this Wall Street Journal, make me a little more optimistic. The metropolitan area growth of the service sector, and especially business services, has been very rapid and has led the expansion of the economy.

I don't think that rural areas can afford just to try to obtain more of the declining or—at least in terms of employment—stationary sectors of the economy. That's not going to offer enough opportunities for their young people to retain them, and migration is primarily among the young adults who in turn are among the best educated people that the rural areas have.

Senator BAUCUS. Mike, I found your testimony interesting. Montana's economy has been adversely affected by changes and policies beyond its control. I think that we, as public servants, whether at the State or Federal level, have a responsibility to help facilitate economic development in Montana and other rural States, to help counterbalance some of those uncontrollable occurrences.

The net outmigration from Montana of thousands and thousands of people over the past several years is of great concern to me. We have to work on keeping our people in Montana. In order to do that, we need to help foster an economic environment that is conducive to job creation. Without jobs, people have no choice but to pack up and leave, whether they want to or not.

The whole point of the legislation I have introduced is to help companies create those jobs.

The Capital Formation bill that I've introduced is not a handout. It's not a low interest loan bill. It sets up a public/private partnership to make loans at competitive rates. These are not grants, they are loans. Loans have to be paid back. The purpose of the bill is simply to get capital out into rural areas.

Don't you think that both the State and Uncle Sam have responsibility to help stimulate responsibly in economic development in parts of the country that have, for whatever reasons—technological changes, demographic changes, and so forth—been left high and dry?

Mr. LETSON. Senator, I understand exactly what you're saying, and I'll address it in three areas. No. 1, we have in that green pamphlet there, our green book in Senator Burns' folio there, are listed no less than 19 programs which the State offers for economic as-

sistance in economic development. That in itself is a lot of programs.

In addition to that, there are Montana capital companies which have millions of dollars sitting in banks in Montana today, looking for Montana businesses to invest in. They have a very poor record of investing in companies, but were brought into existence through tax credits under the guise of providing seed capital or equity capital or basic formation capital for young emerging, growing businesses.

We need to look at that particular program for its effectiveness.

Probably the biggest single thing that makes a difference is tax policy and environment. We have a wonderful State here, and we all live here by choice, I think, because pretty soon there's going to be an exit tax, but——

Senator BURNS. Take care of the deficit.

Mr. LETSON. I live here by choice. I moved here because I like the environment, and Montana has been very good to me, but as long as we have such a great State, we have to make it compatible with what business wants. And most businesses make decisions not on where the good fishing streams are, not how pretty the mountains are, but they make decisions based on profit.

And if we have an unbalanced tax structure in this State where we tax business disproportionally, then economic development cannot take place except in isolated pockets, where the overwhelming attitude is for business.

Senator BAUCUS. There's not much the Federal Government can do about Montana's State tax structure.

Mr. LETSON. And I appreciate that.

Senator BAUCUS. But we can help make capital more readily available, bring up-to-date telecommunications services, and ensure the continued funding of the essential air service program which is so critical to Montana's economy. There is something we can do about these problems. My question is, is it a good idea?

Mr. LETSON. First, I agree with essential air service.

Second, I agree with many of the points in the telecommunications bill because I think it's something that's time has come. Look what the FAX machine did for the State of Montana. It prepared us to step into the 21st century.

As for providing $30 million for Government loans to rural areas, depending on how they're dispensed, depending on who they're dispensed to, and so on, I think my testimony says that I'm against many of those things because the Federal Government doesn't have a real good record in making loans.

Senator BAUCUS. The Federal Government will not be making loans under my legislation. The legislation sets up public/private partnerships whereby loans are made by nonprofit institutions in conjunction with banks or savings and loans. The Federal Government will have nothing to do with deciding about which business gets a loan. The decisionmaking will be up to the nonprofit and financial institution.

Mr. LETSON. This, of course——

Senator BAUCUS. In addition, as I said before, my legislation does not provide for grants. These are loans which must be paid back. This is no handout.

Mr. LETSON. Most Government loans turn out to be grants.

Senator BAUCUS. That's not true.

Mr. LETSON. Let me talk about how bankers perceive many of the Federal loan programs, having been a banker, and I was one for many years. The $25,000 limit, I think is appropriate. It should not be expanded because then you're getting into baling out bankers' bad loans.

In Montana we're not—for small and start-up businesses, $25,000 can go an awfully long ways. This was the amount of money that we decided on in our microbusiness finance bill in the State legislature was $25,000 because we felt that that was the appropriate limit.

The dispensing of monies by the Small Business Administration, there are pros and cons to that. Most bankers use, or most bankers don't use SBA financing or guarantees to any extent because of any number of reasons. Probably the major one is lack of education, and that's why I stressed in my testimony education is extremely important.

Senator BAUCUS. I appreciate that. Virtually every other witness, Montanans true and blue, talked about the need for capital in our State. They endorsed the idea behind my bill. It's important to get a different point of view. I appreciate your giving us that different view.

Mr. LETSON. On the surface it's a popular idea, but when you get into the nuts and bolts, it certainly does have its pitfalls.

Senator BAUCUS. Conrad?

Senator BURNS. Thank you, Mr. Chairman.

Mr. Foren, are you familiar with this book?

Mr. FOREN. No, I'm not. I am familiar with many of them from various States, but I have not had the opportunity to see that one.

Senator BURNS. Well, then I'll shift.

Mike, you're familiar with this book, right?

Mr. LETSON. Do I get out of answering the question if I say "no"?

Senator BURNS. Yes, you do.

Mr. LETSON. Well, I just—I guess so.

Senator BURNS. I have no way——

Mr. LETSON. Apparently I am familiar with it because I cited it.

Senator BURNS. Yes, I know, that's the reason I just wanted to ask you about it. All these publications come out from SBA, and I don't think there's anything new in this one that there wasn't last year or maybe even the year before. How come it's not working? How come those programs aren't working? It's a tough question. I asked Mr. Foren the same question.

Mr. FOREN. Is this a book produced by SBA.

Senator BURNS. Yes, it is.

Mr. FOREN. Is this on the rural development——

Senator BURNS. I don't know. Some guy up there's got a long-handled name says he's a general counsel for advocacy. I think, looking at it, he's advocating his own job.

Mr. FOREN. I haven't had the privilege of reviewing that book even though it's an SBA——

Senator BURNS. We just got it in the mail the other day, so fine. I just would like to point that up, that we put out those publications,

we come out with these programs, and I'd like to know why they aren't working, it's a tough question, I know.

Mr. LETSON. I can't answer your question, but I can give you a feel for why I think many of the programs that Government sponsors don't work. Probably the most important reason is: My idea with my capital gets my attention; My idea with your capital doesn't get my full attention.

Senator BURNS. I think that's a good answer.

Mr. Foren, I know you are familiar with the legislation that has been introduced by Senator Boschwitz in S. 851. Do you think the Revolving Loan Program for certified development companies outlined is a good proposal?

Mr. FOREN. It has merits. It has merits. It would accomplish many of the things you're trying to do here with these proposals, and it would have less of a budgetary impact because what you're talking about here is a direct outlay of the Government. The treasury will make a direct loan to the applicant and that will be used to capitalize a revolving loan fund.

Were a certified development company able to sell a debenture, let's say, in the public markets and then use those proceeds to capitalize a revolving loan fund, you'd accomplish the same thing with less administrative burden.

Senator BURNS. And how about cost? What would be the cost?

Mr. FOREN. Well, the cost would be market rate because these debentures would be sold on the public markets today. The debentures we sold last month were at 10.10 percent, and then you add about 1 percent on top of this, and that's the cost to the small business concern. So it's not cheap, yet it is below prime, and this is a long-term fixed rate.

I'd like to make an observation relative to the programs not working and the loss rate. I believe that the SBA 7(a) Program has worked very well over the years and helped an awful lot of small business concerns in the State of Montana. Last year almost 400 loans, well, 357 loans were made and $38.3 million, and that's banks making the loan, the SBA guaranteeing those loans.

Outstanding portfolios in this State is over 4,800 loans. The currency rate on that group of loans, 4,800 loans, is 89 percent. That's all of 7(a).

The liquidation rate is 7.2. Now we recover on loans that are even in liquidation—there is a recovery rate, so the liquidation rate is not a loss rate by any stretch of the imagination.

In the Development Company Loan Programs, our trouble or loss rate is less than 3 percent. At least these two programs are working and working very well nationwide.

And indeed in Montana, the 7(a) Loan Program is working very well. Montana has the greatest activity of any State in region VIII. We've got more loans on the books here in this State and we've helped more businesses than any State in the mountain region.

Senator BURNS. Let's shift a little bit to the cap. Would you like to see that cap raised?

Mr. FOREN. It would seem logical that a $50,000 cap would be more useful than a $25,000. You can make loans smaller than that. If you provide a Revolving Loan Program to say a Certified Development Company, to Eddie here when he gets organized, if they

were to receive one, he could make a loan for $10,000. He could make a loan for $20,000. But there are those businesses that need $30,000 and $40,000 and up to $50,000.

The average 7(a) loan that was made last year in this State was $107,000. Certainly many were greater than that, so some have to be far smaller than that. I would suspect if we looked into that portfolio, you would see some less than $50,000 made by banks and guaranteed by SBA in the local community.

Senator BURNS. I am just looking at a double-bitted ax here. It costs banks the same amount of money to loan $25,000, as it does $100,000, so they're going to go for the $100,000 because the volume of interest is going to be more profitable.

The system itself sort of discriminates against the small businessman.

Mr. FOREN. It's kind of redlining.

Senator BURNS. And the bank says, well, put a cap on it, $25,000, or say it should not be raised because you're going to bail out some bigger loans and types like that, and I think that should be brought out here.

Mike, I was interested in your observation on the climate of personal property taxes and this type thing. I assume that you're going to go to work on that right away, and when we come back in another year, that will all be over and the climate will be a little bit better. But it will be interesting to see how that unfolds.

No further questions, Mr. Chairman, and I thank these gentleman for attending. Mr. Foren for coming, and it's always good to see you folks.

Senator BAUCUS. I have got a lot more questions, but we don't have the time to ask them. We have another panel and we have to conclude by noon.

Thank you all for your testimony and also for coming the great distances that you have: Mike all the way from Helena; and Mr. Beale, I guess, from Washington, right?

Mr. LETSON. I came from Detroit.

[Discussion off the record.]

Senator BAUCUS. OK, final panel. Hank Barksdale, president of Moss Brown in Belgrade; Frank Odasz, professor at Western Montana College in Dillon; John Domenech, president of Skyland Scientific Services in Bozeman; and Karen Herman, administrator of the Sweet Grass Community Hospital.

Hank, why don't you begin?

STATEMENT OF HENRY C. BARKSDALE, PRESIDENT, RUNWEST, INC., BELGRADE, MT

Mr. BARKSDALE. I'm Hank Barksdale. I am with a company called Moss Brown. We make a—we publish a national catalogue and sell running clothing. We sell only outside—well, not only outside of the State of Montana, but 98 percent of our business was from outside of the State when we moved here about a year last February, a year ago last February.

Senator BAUCUS. From where?

Mr. BARKSDALE. From Washington, DC.

We moved here really because we liked it. We came out here on vacation, but when we looked into it, we loved the people. The people are great employees, are just terrific. Our costs are very good and in the Gallatin Valley, we have a really good telephone system here, too.

But we came here, I guess, somewhat tainted because our company had gone through Chapter 11, and it's really been a very, very tough move for us. We haven't been able to get any money at all, and our volume has been, you know, ridiculously small in comparison to what it was back there. We're doing maybe $300,000 a year. We were doing $8 million there.

And it's, I think, to a great extent because of attitudes with the people of the business community here in that they feel businesses like ours move here and will probably fold and move away in a couple of years.

One of the reasons I like your legislation, I think, as I understand it, the loan legislation requires the local community to put up half of the money which means that the local community is going to have to say, they're going to have to put their money where their mouth is, and I don't think they do that now.

I think they're looking for companies like Pategonia with lots of money to come in and bring all their money with them and help out the area. They're not really looking to support new business. And at least that has been my experience here.

Now I guess the only other thing I have to say on that is that I think it's important for the community to want to support new businesses because there'll be a mushroom effect as, if my business does well—and everybody in the country, when we came here, the Chronicle put an article in the paper, and it was carried in all the papers all over the country. People know about us. If we fold, it's not going to be good for the State.

I think the community needs to support people that they bring to the State, and I don't think they do now.

Senator BAUCUS. Thank you, Hank, very much.

[The prepared statement of Mr. Barksdale follows:]

Runwest, Inc.
19 E.Main St.
Belgrade,Mt 59715

May 19,1989

Dear Senator Baucus:

I am very supportive of any financial assistance which can be given to small business in our rural community.

I am pessimistic about the willingness and/or ability of the rural business/banking community to provide funds to companies which are not similar to those with which they have been familiar, or are run by "newcomers".

Loan funding such as you propose would make it possible for my size of small business,without outside investors, to obtain growth funds.I own 100% of our corporation and have invested well over $100,000 in cash funds in the company within the past three years yet those funds were not eligible as matching funds.Very few small business owners are going to want outside investors of any kind in their businesses. These businesses are the foundation of this country and are a major new growth area in today's economy. From the proper funding of this segment of our economy can grow major businesses.

In our field, which is mail order sales, a company called Performance Bike Shop was started by a husband and wife team in the basement of their house in Chapel Hill,NC seven years ago. Today that business is grossing more than $25,000,000. It has more than 350 employees and is a major factor nationally in retailing to the biking community.

In our case, Moss Brown came to Montana somewhat tainted, having just emerged from a re-organization. But I must admit that having been pursued by the local business leaders I was surprised to find that having spent $50,000 in relocation costs to get here that I now had to prove I could endure for "two years" before most banks would look at us. I was able to borrow $9,000 from the Valley Bank of Belgrade. While this was much appreciated it didn't fill our needs.

While in the Washington, D.C. area we employed 60 people and had a line of credit of $1,250,000 with a local bank. To my knowledge no such funds are available here. Today we employ two part-timers. While the business has the potential of achieving past employment levels it will never be able to do so without proper funding.

No funding has been available. The most promising was a loan of $40,000 from the revolving loan fund of the City of Belgrade.

In this case we were solicited by them and told if we applied we would get the funds. A 22 page proposal was prepared by us and submitted per requirements. Then we were turned down because they didn't understand what we were doing and were afraid we might not be able to re-pay.

I, for one, have no desire to repeat that experience and have given up on finding local funding.

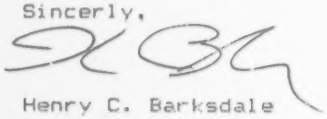
1) Your bill should make funds actually available to businesses of less than $500,000.

2) The funds should be available without excessive paper work.

3) The applicant should not have to give away the store in order to obtain the funds.

Since your legislation offers this type of funding I am highly in favor of it.

Sincerly,



Henry C. Barksdale
President
Runwest, Inc.
(Moss Brown Catalog)

Senator BAUCUS. Mr. Odasz.

STATEMENT OF FRANK ODASZ, PROFESSOR, WESTERN MONTANA COLLEGE, DILLON, MT

Mr. ODASZ. My name is Frank Odasz. I am from Western Montana College and director of the Big Sky Telegraph Project, which is a case study in the rapid evolution of grassroots technology. I feel that Montanans are the resource that we need to develop. This is the resource that an information economy is based upon and education is at the heart of this potential harvest.

Big Sky Telegraph was started 1½ years ago to connect rural schools with the microcomputer telecommunications, and we now have successfully over 500 people on line and over 100 schools represented. We have problems though with noisy phone lines that prohibit data communications. I have some schools that cannot take advantage of the services we offer. We also have school boards across the State that are very concerned with the $16 an hour in-State long distance rate.

To the north of the border, in Alberta the rates are $4 to $6 an hour, and I understand there is the technology available to bring these rates down in Montana.

The problems seem to be telecommunications literacy, that many of the voters, legislators, and so forth, are not fully aware of the different telecommunications options.

Telecommunications is such a broad term. It means different things to different people, and hence it often leads to rather nonproductive discussions.

Education and economic development are inseparable. Entrepreneurship curriculum is a new trend in rural high schools where leadership and the structure of rural communities is taught through English and social studies classes.

On Big Sky Telegraph, we now have, in addition to the educational services, economic development activities linking the seven counties in southwest Montana.

Reference has been made earlier to the ag incubator without walls that has been funded and is using the Big Sky Telegraph system.

This notebook-sized microcomputer here costs only $700. This is technology that is here today and any small business person in Montana or educator can use one of these to call anywhere in the world literally.

Senator BAUCUS. What is that?

Mr. ODASZ. This is a microcomputer.

Senator BAUCUS. It's a mini-laptop?

Mr. ODASZ. Yes, battery powered, and I use this to administer Big Sky Telegraph when I'm on the road. I use this to communicate with individuals in Tokyo, Japan; and I'm training other individuals, Montanans, educators and business people, how to use this same technology remotely.

I send them this packet, and they follow page one and leave a message for me on the system, and through electronic messaging, we're able to then tie these individuals from anywhere at any time.

Senator BAUCUS. How much does that cost?

Mr. ODASZ. Seven hundred dollars, and this is a 512K PC, which is the same as your standard desktop unit.

Senator BAUCUS. That's very interesting. I have one a little larger, but it won't fit in my little briefcase. As a result, I couldn't bring it home with me this week.

Mr. ODASZ. This one will fit in a briefcase.

Senator BAUCUS. And it's only $700, you say?

Mr. ODASZ. That's right.

Senator BAUCUS. Has 512K memory?

Mr. ODASZ. That's right, 512K memory, and this is the type of system that a small business loan could realize for any type of individual in education or economic development.

Senator BAUCUS. That's interesting.

Mr. ODASZ. And they do have——

Senator BAUCUS. Who makes it?

Mr. ODASZ. This is a Toshiba 1000.

Through use of a unit like this, a person can connect with Big Sky Telegraph and literally view an index of available services and resource persons in Montana. It's possible for a rural community person to access Big Sky Telegraph and just leave a question: What are the different economic development agencies or small business support agencies in Montana?

Most people don't know where to find this type information. That green book, most people would not know how to get access to that or the different agencies that are available in it. The grassroots individuals don't. So what is needed——

Senator BAUCUS. Even the fellow representing the SBA didn't know about it.

Mr. ODASZ. You bet. So what is needed is a central index that is accessible by grassroots individuals, and this is what the SBA in Helena and the Department of Commerce has voted to support through a grant that is being written to utilize Big Sky Telegraph for this purpose.

We're looking at the possibilities of a circuit rider to disseminate modems, and with a brief amount of training, in 15 minutes you can learn how to use this to communicate with resource persons all across the State and potentially globally.

The problem is that we have needs and services, but they're not matching. We have an information lag. This technology today is up and running and has the potential to connect the grassroots needs with the available agencies and services in Montana.

Senator BAUCUS. But what you're talking about is transmission of electronic messages through a modem, over-the-phone lines or other systems, correct? You don't have two-way audio-visual with that?

Mr. ODASZ. That's right. The advantage of this is that you can send a message 24 hours a day. Most public offices close after most of us get off work. So this makes the information more accessible.

Senator BAUCUS. That's why I have mine, for that very reason.

Mr. ODASZ. And most of the information that people need is not a video picture. It is who's who? And what's what? And how do I get in touch? And who can counsel me? And I have an idea, where do I go to? And so forth.

And this provides asynchronous communication, which means you leave a message for someone and they're busy, they can read the message at their convenience and respond to you, and you have an interactive link. These video technologies are not interactive until you get to fiber optics, which most of these rural schools and communities will not see till the latter part of the next decade.

Senator BAUCUS. Oh, no. This bill is going to be passed this year.

Mr. ODASZ. Well, we have some rural schools 50 miles from the nearest paved road and it's those that I am more concerned with, and that's what Big Sky Telegraph is providing a means of service to now, and we're providing training as well, but the problem is the cost of the phone lines. That's one of the main problems. The other is the literacy in general across the State as to how can we do what Canada is doing to the north of the border?

Senator BAUCUS. I'm going to ask you to summarize, if I could, because we're getting down to crunch time.

Mr. ODASZ. There are technologies that have not been addressed involving V-sat satellite dishes and packet radios that do offer viable alternatives today for connecting rural communities to packet switching on a national basis as well as in State.

And there's been a very serious administrative resistance to many of these technologies that we have come across, and it's grassroots individuals that have been making Big Sky Telegraph work. I invite you to join Montanans, grassroots Montanans on Big Sky Telegraph to see how this is working. I certainly in the time allowed cannot give a full description, but this is up and running and is touted as being the best rural support system in the country, if not the world. In summary I would like to offer my full support for S. 759 and S. 863. Thank you.

Senator BAUCUS. Good for you. Thank you, Frank.

[The prepared statement of Mr. Odasz follows:]

Western Montana College
Box 11 Dillon, MT 59725
(modem) (406) 683-7680 (voice) (406) 683-7338

May 19, 1989

To: Senate Small Business Committee's Subcommittee on the rural economy and family farming.

From: Frank Odasz, Director of Big Sky Telegraph, Western Montana College

RE: Support for bills S.759 and S.863

Big Sky Telegraph is a multiline regional network empowering grassroots teachers and rural residents with the advantages of superconnectivity with regional resources, resource persons and each other. The original purpose of this demonstration project has been to link 114 one room schools. To achieve self sufficiency, additional communications services are being vended to economic development and rural community support groups.

Big Sky Telegraph will soon offer small business persons affordable electronic mail access to the Montana International Trade office in Tokyo. Links with small business persons in other countries are under development. Microcomputer skills training classes are available to anyone, anywhere, anytime on both educational and small business uses of microcomputer telecommunications.

Entrepreneurship curriculum, where education and economic development meet, is the teaching of small business startup skills in a high school setting. Focusing on the structure and leadership patterns in rural communities, the intent is to create opportunities for rural youth to remain in rural communities. Education and economic development are inseparable.

Last week a meeting was held in Butte sponsored by the Montana Department of Commerce, the Small Business Association and the Headwaters Resource, Conservation and Development group. Forty individuals were present representing a broad variety of economic development organizations and related groups. Unanimous consensus was reached for Big Sky Telegraph to serve as the central public access system for a comprehensive listing of the small business support services currently available in Montana.

A grant committee will propose a program for a circuit rider to distribute modems to public offices in rural communities and provide training for an information specialist in each community to assist rural residents in obtaining answers to any questions they may wish to ask of the various agencies via the network.

Western Montana College
Box 11 Dillon, MT 59725
(modem) (406) 683-7680 (voice) (406) 683-7338

The bills Senator Baucus is proposing are in line with national trends toward small business facilitation as the best bet for economic growth in rural areas, particularly where microcomputers and telecommunications are involved.

In-state long distance phone charges for data transmission are currently $16/hr. To our north in Alberta, Canada, such charges are only $4 to $6/hr. US West has the technology and desire to bring in-state packet switching to Montana to allow our educators and businesspersons access to these lower rates. The Montana Public Utilities Commission has prohibited US West from offering these services in Montana. This is a vital issue if the grassroots telecommunications advantages that Big Sky Telegraph and other Montanan online systems have demonstrated are to be maximized. Perhaps these bills could more directly reference this particular issue. This form of information sharing is still the most economical and versatile interactive telecommunications technology available for rural areas, even at these unnecessarily high rates.

The future of quality education and rural small business hangs on access to the same telecommunications capabilities available in urban areas. These "highways of the mind" are as vital today for rural economic development as the first railroads were a century ago. More demonstration projects and opportunities for start-up capital are necessary to prevent the decimation of our heartland communities.

Those of us on Big Sky Telegraph would like to invite Senator Baucus to communicate directly with his constituents regarding this important effort via Big Sky Telegraph.

UNIVERSITY OF MONTANA
Western Montana College

Modem - 406/683-7680
Voice - 406/683-7338
Dillon, Montana 59725

BIG SKY TELEGRAPH'S BUSINESS SERVICES:

- **CONVENIENT ELECTRONIC MAIL**
  -avoid costly telephone tag
  -Stay in closer contact with more people in less time
  -90% less costly than Fax, and text is compatible with your word processor!

- **ONLINE CONFERENCING**
  -makes face-to-face meetings less necessary
  -allows your personnel to keep closer in touch
  -connectivity with economy, reliability, and convenience

- **OFFICE-TO-OFFICE DOCUMENT TRANSFER**
  -quick and easy daily organizational updates
  -automatic newsletter delivery

- **POST YOUR OWN** customized menus, bulletins, databases and information services statewide or beyond

- **BUSINESS DEVELOPMENT RESOURCES**, grant writing assistance, economic development databases, online resource persons

- **EXPLORE GLOBAL MARKETS**, information sources and expertise

AUTOMATED DOCUMENT DELIVERY: Disks can be customized to automate your business's communications needs with minimal employee training. From a remote office one can insert a disk, type a single command, and selected bulletins, messages or documents can be instantly sent or received. The remote site computer can be left on overnight and documents from your central office can be delivered directly to a floppy disk left in the drive.

ADVANCED INFORMATION SERVICES:

- ONLINE DATABASE AUTHORING: Post your own databases
- OPTICAL SCANNING SERVICES: We'll scan your graphics or text
- DESKTOP PUBLISHING: Let us add style to your documents
- FAX: we can fax your text files for you
- VOICEMAIL: Private answering machines with touchtone features
- CUSTOMIZED PROMOTIONAL DEMO DISKS for your OWN online services

ONLINE CLASSES FOR TRAINING AT YOUR LOCATION:

- "Microcomputer Telecommunications for Business" covers how to access other systems, electronic mail, conferencing, text transfer and how to use them to promote a business.

- "Computer Literacy for the IBM PC" covers Wordperfect 5.0, Lotus 1-2-3, dBase III plus, basic MS-DOS and telecommunications basics

FIRST PERSON PLURAL

We Is Us

Featured in the First Person Plural section, a "regular" in "s s west Magazine," are some of the millions of noteworthy people and events within this culturally diverse region.

Readers are invited to submit profiles on people of interest, topics or events to be covered in this section. A c s west coffee mug will be awarded for each idea received and a desk clock-calculator for each idea used.

First Person Plural is about us—all of us—and about the diversity in the vast territory between both coasts often overlooked in national publications.

Big Sky 'Cowboy Cursor' Corrals High-Tech

In Toston, Montana, six year-old Luke DeMartin is blind and relies on his "talking" computer to supplement his teacher's instruction. Trouble was, he needed software to make the voice synthesizer work.

Margaret Haugland, Luke's teacher at the one-room schoolhouse, put out the word on Big Sky Telegraph. Within days, the software arrived.

—In Jackson, in the Pioneer Mountains of southwestern Montana, teacher Ann Verbance and her students wanted to enter an essay contest about the U.S. Constitution but had few background materials. Verbance requested help on Big Sky Telegraph. Documents arrived shortly. The school won.

—In Zurich, near the Canadian border, a school burned down, taking with it books and other materials. Word passed quickly on Big Sky Telegraph. Replacement supplies were offered from across the state.

—In Luma, teacher Bonnie Boggs took several messages on Big Sky Telegraph from worried children around the state whose ant farms were dying. She sent back advice to correct the problem—and added a note that her pupils' black widow spider had given birth to 172 babies—mother and young doing just fine.

Big Sky Telegraph is a communications network linking 110 one-room schools with Western Montana College in Dillon—and, in reality, the world.

In computerese, it's a "multi-line electronic conference network." In rural Western lingo, it's the "cowboy cursor."

Instead of dots and dashes, it uses bits and bytes, modems and microcomputers.

Project director Frank Odasz, a professor at WMC, says the computer telegraph allows rural teachers to pool resources, expertise and lesson plans; glean information from the college library and faculty, and borrow educational software as they would books. When the need arises, they can tie in with 6,000 other systems worldwide.

All they need is a computer, a grant-provided modem, software, the regular phone line and imagination to use the program in a variety of ways.

For as little as $5 a week in phone costs, they have access to an easy-to-use, two-way videotex system.

"The Telegraph isn't so much a computer network as a people network connecting human databases," Odasz says.

Big Sky was designed by Odasz, his wife, Regina, also a teacher at WMC, and technical consultant Dave Hughes of Colorado Springs. Big Sky celebrates its first birthday in January. It was set up with $55,000 from the U S WEST Foundation and $51,000 from the M.J. Murdoch Charitable Trust, Vancouver, Washington.

The 120 or more rural teachers trained on the system have become community information specialists, Odasz says, because they are the hub in the exchange of a wide range of information.

Thirteen women's resource centers around Montana are using the system, as are librarians and

(Top): **Judy O'looney *(left)*, Montana accounts manager-Government & Education Services, reviews Big Sky plans with teacher Joann Nelson at Reichle School in Glen, Montana.** *(Below):* **Regina and Frank Odasz with map of Big Sky locations.**

UNIVERSITY OF MONTANA
Western Montana College

Modem - 406/683-7680
Voice - 406/683-7338
Dillon, Montana 59725

BIG SKY TELEGRAPH'S EDUCATIONAL SERVICES

Are you online yet? If not, let us help you connect with:

1. **YOUR PEERS:**
   - Join over 100 educators and dozens of resource persons
   - Share ideas and lesson plans
   - 100% reliable messaging, at your convenience, 24 hrs/day

2. **TELEGRAPH'S SOFTWARE PREVIEW LOAN LIBRARY:**
   - Hundreds of quality educational software programs ready to be mailed to you for a two-week loan period
   - Free copying of OUR public domain software on YOUR disks
   - Centennial ideas, updates, and lesson plans
   - Science kits, videotapes, theatrical plays
   - Little Big Library of Children's literature

3. **GLOBAL ELECTRONIC PENPALS FOR YOUR STUDENTS:**
   - Writing to make friends is motivational
   - Study other cultures; expand your students' horizons
   - The phone cost to your school can be kept to $5/week

4. **ONLINE LIBRARY SERVICES:**
   - Free ERIC searches
   - Direct contact with Western's librarians and services

5. **ONLINE EDUCATIONAL DATABASES:**
   - OPI's educational film and videotape database
   - The Telecourse Providers database
   - Our New Lesson Plan Database

6. **TECHNICAL HELP AND WESTERN'S FACULTY:**
   - Western's microcomputer center director and services
   - Rural Education Center
   - Science and Math specialists
   - SW Montana Special Education Co-op

7. **ONLINE COMMUNITY RESOURCE PERSONS:**
   - Headwaters' Regional Network for business development and grant writing assistance
   - Women's Resource Center of Dillon
   - Retired teachers

JOIN US! Big Sky Telegraph is an **OPEN** system. The sponsorship fee is $10/$15/$20/month for teachers, community service persons, and business persons, respectively. Sponsors receive a personalized ID and FULL access to ALL services. Online training and loaner modems are available. For information contact Frank Odasz, at 1-800-WMC-MONT ext. 7338. Have a modem? Call 406-683-7680, 300/1200 baud. Enter "bbs" at login prompt.

A Big Sky Telegraph diploma and embroidered patch are awarded at the completion of this course of instruction. It's fun! Be the first one ONLINE in your region.

e Montana Standard, Butte, Friday, April 7, 1989—3

Montanans hold high-tech edge

Billie Peterson
Herd Correspondent

LLON — Although Montanans they are behind in the race for ommunications technology and trying hard to catch up, they actually ahead of most states, rding to International Teleco- cations Consultant Dave es of Chariot and Old Colorado Communications of Colorado gs.

do not know of any other state is as across the board, as e, progressive, and committed ing technology within telecom- cations to improve itself and e into the next century," he

ughes, a retired Army colonel graduate of West Point, who ht the first on-line English s, is known for his work with tronic Democracy and Grass- s Communications programs.

e owner of his own telecom- ications network, Hughes is a ultant to Western Montana Col- s Big Sky Telegraph. He ked with Telegraph coordinators Regina Odasz to set up network and was impressed by attitude and cooperation that he d at Western, he said.

any colleges have problems jealousy both from within and out the institution, which pre- ts the type of remarkable prog- that has occurred with the graph, Hughes said.

ograms abound

owever, he explained that Big Telegraph is only one of several communication programs in the e that is allowing Montana to the pace for other states.

e cited the Agricultural Bulletin ard in Helena as an indication Montana is advancing rapidly the area of telecommunications. he noted that there is a bill in Legislature that will require the partment of Administrations to up a bulletin board.

e applauded Rep. Chuck Swys- d, R-Dillon, for his presence on Headwaters RC&D Bulletin ard. "There is not a local Demo- or Republican on a single letin board in all of Colorado ings, which is the second largest in Colorado," Hughes said.

The things prove that Montana s a pretty good sense of progres- eness," he said.

"Maybe I shouldn't say this be- ause people will think they are lly not behind, and they will slow on."

I do not know of any other state that is as across the board, as aware, progressive, and committed to using technology within telecommunications to improve itself and move into the next century,' says a Colorado consultant for Western Montana College

Part of the motivation was "Montanans thought they weren't really up with the big city guys," Hughes said.

Montana's economic situation also provided a strong stimulus for its advancement in telecomunications. The state is hurting ecomically and is having to come up with some new answers, he said.

Amenable to change

The very nature of Montanans allows them to make this change, naturally and with ease, Hughes said. It's the hard-headed practicality of Montana people that helps them accept change readily.

"A rancher or farmer, having his wagon pulled by two horses, was willing to change to a tractor as soon as someone proved the tractor better. It was no big deal — he just moved on to another type of technology," he said.

"It's a damn good news that Montana is so accepting, so willing to get into this, and so practical and non-adversarial about it. That is the story, for you will not find it in many states elsewhere. And it speaks very well very well for the whole state," Hughes said.

Hughes, who participated in a two-day information technology conference at Western Montana College, said the remarkable thing about the conference was that the people who were most impressed during the conference were the those who came from outside the state. They were amazed at Montana's advancement in telecommunications technology, he said.

Big Sky Telegraph was recently highlighted in a report to Congress by the U.S. Office of Technology and Assessment. The Telegraph is the leading example in education and distance learning in the nation, Hughes said.

Rural kids are whizzes

Hughes has assumed the role of "Big Sky Telegraph storyteller," he explained. "I tell stories on other systems about Big Sky, but I tell them to deal in so they can see for themselves that children from Wisdom, Montana — population 100 — are communicating with children from dozens of other little towns."

The technological knowledge these school children gain from the Telegraph will help them cope with their future, he said. "The child that uses this will be developing not just what the school can teach him, not just what Montana can teach him, but he can reach outside with this technology. He is learning how to learn, not just the subject," he said.

Reichle school children, who have been attending class on Western's campus since their school at Glen burned down, probably know more about telecommunications than the majority of adults in the state, Hughes said.

The system also reaches out to other people in the community, he said. A number of retirement age teachers have expressed a desire to go on teaching from their homes after they leave the classroom. And the Telegraph makes that possible.

Once these teachers go on-line with a computer they can teach on a one-on-one basis those students who need special help, and they can do it without leaving their homes, Hughes said.

Telecommunications bulletin boards, such as the Telegraph, also provide a way for busy professional people "to deliver the contents of their mind to students in a classroom" without having to take the time to go to the school, he said.

Teachers can stay home

Hughes noted that teachers may soon receive additional income as a result of the Telegraph. The teachers, using the telecommunications equipment in their schools, would teach adults in the community how to use the equipment. A grant to finance that project is currently being pursued, he said.

Volunteer work can also be done through the telecommunications network. An attorney who because of age or disease is unable to go to the office every day will be able to offer volunteer legal services to the women's center at his convenience from his home. Hughes says he serves as a father figure to numerous teenagers who use his network to communicate with him.

And that same network also provides his wife with a convenient way to communicate with their children and grandchildren. She leaves a message on their son's computer, and when he sees it he answers back — usually all in the same day, Hughes said.

The Montana Standard, Butte, Monday, April 3, 1989— 3

State can't rely on booms, technology conference told

Billie Peterson
Standard Correspondent

DILLON — A two-day conference sponsored by the Small Business Administration and Western Montana College focused on Montana's use of information technology to improve its economy, and Lewis Shayon, of the University of Pennsylvania's Annenburg School of Communications, said "attitudes would have to change" if Montana is to be successful.

However, he said "at a deeper, more fundamental level, Montanans are beginning to realize that the old boom-bust cycle is obsolete."

"There won't be another boom," he said. "The world is changing. A global civilization is emerging, and Montana will have to change or risk losing its children to the outer world, and become again the Empty Quarter, the Great American Desert," Shayon said.

Although the 175 conference participants were primarily from Montana, numerous guests traveled from Pennsylvania, Texas, Wyoming and Washington D.C.

The information technology conference on economic development was developed in an effort to call attention to the fact that Montana has the technology to communicate with anyone, anywhere — in either a rural or urban environment, according to Cheri Jimeno, assistant professor of business at Western.

Jimeno said she sees Western as a leader in information technology. A recently completed state-of-the-art automated office in the college's business department provides students with technology that is as sophisticated as anything in a New York office, she said.

Access to this information technology, at least in part, is made possible through the Big Sky Telegraph, a computer networking service sponsored by the college. The Telegraph was originally set up to train teachers and provide on-line services to rural schools throughout the state, but has expanded its services to economic development.

The Telegraph is presently working on a project that will allow access to Global Usenet Network, comprised of 8,000 systems. Through this advance, rural students will soon have the opportunity to have international pen pals via computer, Shayon said. He added that it is possible that within a year, connections will be made with China, Japan, and Russia.

The big question asked throughout the conference was "Can Montana use the technology it has to enter both national and international markets by adding value to its products through increased knowledge and information?"

On March 3 in Helena, the Montana International Trade Corporation announced a partnership with Japanese corporations designed to study types of investments Japan may want to pursue with Montana, Shayon said. He cited beef packaging for export on the world market and tourism as two ways this state might rise above the boom-bust cycle.

There is no reason why Montanans can't improve economic development through the service industry, which has happened in urban areas, according to Andy Wyckoff of the Office of Technology Assessment in Washington D.C.

To this point, however, most of the growth in services hasn't been in rural areas or overseas. Wyckoff said Montana's lack of a trained labor force is one reason for this. However, Montana's University System could help conquer this problem by retraining Montana's workforce.

The other reason is cultural. "People like to deal with people — go to conferences, shake hands, and go to lunch." He said the use of fiber optics could help this problem. And he added that the umbilical cord to a fiber optic link is almost set up. This will place 80 percent of the homes in America within 50 miles of an optic fiber line.

Small businesses could find the complexity of these information systems to be a challenge. An additional challenge to small businesses is the fact that much of this information comes from large corporations who may not be as willing to share the same information with their small suppliers that they share with other large businesses.

Wyckoff said information technology conferences like the one at Western will help Montana find ways to overcome its challenges.

Some industries want to move their companies to areas where the costs of living are lower, he said.

According to Shayon, Montana's problem is no longer local. The problem is how Montana will fit into an emerging global economy in which land, capital and minerals will no longer be the true wealth of nations. The real wealth of a service economy, he said, is information.

Montana controls its own destiny, Shayon added. But to be successful, its citizens will have to "make the biggest turnaround of all — the turnaround of your own thinking."

Dillon Tribune 4-9-89

County getting global connections

By Dena Olsen

It sounds like the Old West. A "circuit rider" who will have a home base in Dillon and travel to outlying counties to help people with their agricultural businesses, will use the Telegraph to communicate.

In reality the forthcoming "agricultural incubator without walls," as it is being called, is a fusion of old and new. The telgraph, surprisingly, is the new.

Big Sky Telegraph is an electronic conference network (computer bulletin board and database) with its heart in the Office/Classroom "OC" building at Western Montana College (WMC) and its soul in rural Montana.

The Telegraph is essentially an electronic means of linking people in diverse locales. In some ways it is much like the telephone used to link the computers of Telegraph users: like the telephone, the Telegraph allows people to talk to one another. Unlike the telephone, the Telegraph allows them to send large amounts of information to one another in seconds. Also unlike the telephone, the Telegraph allows the sender to leave the message, or data, at any time – regardless of whether the recipient is there or not. Also the Telegraph allows conference-style communication.

The Telegraph was initially set up to link rural schools and communities with each other and with the resources of WMC. It has proved its value to rural students many times over.

For example, a message placed on the Telegraph helped a blind student in Toston find the software to make the voice synthesizer on his computer work and it helped students in the Jackson school find background material about the United States Constitution for an essay contest that the school later won.

Now the Telegraph will be put to work assisting those involved in rural economic development.

Much like a conventional bulletin board, the Telegraph allows anyone with a computer and a "modem" to leave or retrieve messages. The difference is that the messages are read by people across the state and the nation. Soon a message placed on the Telegraph will reach around the globe.

This electronic communication is called electronic mail, or "E-mail." Big Sky Telegraph project director Frank Odasz said electronic mail will provide several advantages for those involved in the ag incubator, including allowing them to send and receive information at a cost of only about 5 cents per page. That compares favorably, Odasz said, with the 50 cents per page cost of "Fax" transmissions.

"E-mail" isn't the only feature the circuit rider will use, however. A database of economic development information specific to the needs of Southwestern Montana business people will be added to the "Headwaters Regional Network" (HRN) portion of the Telegraph.

Also the Headwaters RC&D, a non-profit organization, has been posting daily legislative updates on the Telegraph.

The Small Business Administration is connected to the Telegraph, as is the Anaconda Job Service, Odasz said, adding that a business person can list help wanted advertisements on the Telegraph.

"Because Big Sky Telegraph is located in Dillon, everyone in Dillon has a free local phone call (to access the Telegraph) and potentially Dillon could become a hub of resource persons serving all of Montana," he said.

"Anyone with any Apple, IBM, TRS-80, or Commodore computer and any modem can access this system," he said. To access the Telegraph phone 683-7660, then type IIRN at the prompt. WMC regularly hosts online classes and can loan modems to anyone interested in the Telegraph.

"The bottom line is Big Sky Telegraph is very easy to use and very powerful.

"We'll be able to offer global connections to rural Montanans."

Senator BAUCUS. John.

STATEMENT OF JOHN S. DOMENECH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SKYLAND SCIENTIFIC SERVICES, INC., BOZEMAN, MT

Mr. DOMENECH. Thank you, Senator Burns, and Mr. Chairman, Senator Baucus for the opportunity to present my views on the major problems in rural America and its effect on economic development.

My name is John Domenech. I am president and chief executive officer of Skyland Scientific Services. Skyland is a high-technology information company. Our service market is the pharmaceutical and biotechnology industries located on the east and west coast of the United States. We gather data at a client's facility, add value to that data by processing it into a meaningful form, thereby causing the import of dollars into rural America.

Two years ago we had 35 employees and about $1 million in assets. Today we have over $3 million in assets. We are a classic example of an information-based service company.

I come before this Committee with a heavy heart, knowing Montana is losing its most value asset—its people. In fact since 1980, 20,000 more people moved out of Montana than moved in. Worse yet, young educated Montanans are moving out in search of jobs.

Mr. Chairman, you asked for my thoughts as to the reasons why people are leaving Montana. Before I give that assessment, some March 1989 statistics are necessary.

The national unemployment average is about 5.4 percent.

The Montana unemployment rate is about 7.7 percent.

In Montana nearly 75 percent of the 56 counties have an unemployment rate equal to or greater than 5.4 percent.

In Montana 13 counties have an unemployment rate greater than 10 percent.

In Montana five counties have an unemployment rate greater than 12 percent. One county, Sanders, has an unemployment rate of a whopping 20 percent.

It's a dismal situation. Montanans are leaving because in Montana there are no jobs. We can reverse this trend by addressing the problems head-on. There's a myriad of problems in rural America, some of which are transportation, a crumbling rural infrastructure, banking, telecommunications, and education. You may remember that I addressed each of these in detail in front of this very same Committee on June 29, 1988.

Today, though, we're here to address the Rural Access to Capital Act of 1989 and the Rural Access to Telecommunications Act of 1989, both of which address one of many common rural problems that have been festering in Montana for quite some time.

While examining the capital access bill, I noted the purpose was to encourage private financial institutions and nonprofit entities to invest in rural communities. It's also to provide technical assistance to the rural businesses created and make small-scale loans to microbusinesses.

The method of getting this capital to a rural community, wherein a community is defined in the bill as less than 50,000 people per

political subdivision, is for the Small Business Administration to make 30 or so loans of not more than $1 million each.

For reference sake, 52 counties in Montana have fewer than 50,000 people. And 35 of those 52 counties have an unemployment rate greater than the national average.

The point here is that should this bill become law, a fund of $30 million is woefully inadequate considering that 35 Montana counties could use it to help them to get down to the national unemployment rate average.

And when you couple that with other States—Wyoming, North Dakota, Idaho, for example—they have similar problems as we do in Montana.

Equally as important, the bill's structure forces each rural community or loan applicant entity to gouge the other's heart out to get at the limited pool of resource dollars. Rural America's problems cut beyond a $30 million quick fix. The solution will rest with successful efforts by everyone: Federal, State, local and private interests, and I believe it will take more than $30 million.

Because it will take more than $30 million and our deficit is already staggering over $1 trillion, why not let the market control access to capital? For example, P.L. 936 is specific to pharmaceutical industries who locate in Puerto Rico. There's no Federal income tax paid on any profit made from pharmaceutical products in Puerto Rico. That act went a long way toward reducing public assistance given the Commonwealth.

Why can't this bill have a similar purpose in that it be designed to reduce the high unemployment rates? Delete the $30 million in loans and provide rural America with tax credits or no Federal income taxes on profits on a one-for-one basis for those businesses that continue to increase their workforce, both in terms of total numbers and total salaries paid by at least 10 percent per year.

In other words, if a company grows by more than 10 percent a year, then that company pays no Federal income tax the next. Trust me. Capital will find those businesses that can grow and continue to grow at these rates. For large businesses, say greater than 100 workers or so, require a 5 percent increase per year.

I believe a plan like this will allow the market to drive, and capital will be a willing passenger. More importantly, jobs creation won't take a back seat.

With respect to the Rural Access to Telecommunications Act of 1989, I found the purpose to be two-fold: To improve basic services through low interest loans and provide 10 grants of $1 million each for each year, 1990 through 1994. And those grants are to test the feasibility of using advanced telecommunication technologies.

I agree that low interest loans will provide an incentive for modernization of the existing rural telecommunications network. I would delete all of section 503 which authorizes the grants because of logic.

Specifically, if one agrees that there is a problem and low interest loans can help solve the problem by modernizing, then why does one want to provide a grant to test the feasibility of modernizing during the same timeframe?

Either we test, then act, or we act without testing, as opposed to acting and testing as written in this bill. This latter approach, I be-

lieve, is wasting money on the testing portion because the systems will already have been in place by the time the testing is completed.

Thanks for the opportunity to comment on these two bills. As I mentioned, the problems are myriad, and the challenge certainly exists. Clearly, though, we have to meet tomorrow's challenge today. Thank you.

Senator BAUCUS. Thank you very much, John.

[The prepared statement of Mr. Domenech follows:]

Testimony: Rural Access to Capital Act of 1989 and
Rural Access to Telecommunications Act of 1989

May 24, 1989

John S. Domenech
President & Chief Executive Officer
Skyland Scientific Services, Inc.
2111 South 7th Avenue
Bozeman, Montana 59715

Thank you, Senator Burns and Senator Baucus, for the opportunity to present my views on the major problems in rural America and the effect on economic development. My name is John Domenech, and I am President & Chief Executive Officer of Skyland Scientific Services.

Skyland is a high-technology information company. Our service market is the pharmaceutical and biotechnology industries located on the east and west coasts of the United States. We gather data at a client's facility, add value to that data by processing it into a meaningful form, thereby causing the import of dollars into rural America. Two years ago, we had 35 employees, and $1 million in assets. Today, we have over $3 million in assets. We are a classic example of an information based service company.

I come before this committee with a heavy heart, knowing Montana is losing its most valuable asset -- its people. In fact, since 1980, 29,000 more people moved out of Montana than moved in. Worse yet, young educated Montanans are moving out in search of jobs.

Mr. Chairman, you asked for my thoughts as to the reasons why people are leaving Montana. Before I give that assessment, some March 1989 statistics are necessary.

1. The National Unemployment Average is about 5.4%.

2. The Montana Unemployment rate is 7.7%

3. In Montana nearly 75% of the 56 counties have an unemployment rate equal to or greater than 5.4%.

4. In Montana 13 counties have an unemployment rate greater than 10%.

5. In Montana 5 counties have an unemployment rate greater than 12%. One county, Sanders, has an unemployment rate of a whopping 20%!

It's a dismal situation. Montanans are leaving because, in Montana, there are no jobs.

We can reverse this trend by addressing the problems head-on. There is a myriad of problems in rural America, some of which are transportation, a crumbling rural infrastructure, banking, telecommunications, and education. You may remember that I addressed each of these in detail in front of this very same committee on June 29, 1988.

Today, though, we're here to address your Rural Access to Capital Act of 1989 and Rural Access to Telecommunications Act of 1989, both of which address one of many common rural problems that have been festering in Montana for quite some time.

While examining the Capital Access Bill, I noted the purpose was to

- encourage private financial institutions and non-profit entities to invest in rural communities,
- provide technical assistance to the rural businesses created, and
- make small scale loans to microbusinesses.

The method of getting this capital to a rural community, wherein a community is defined in the bill at less than 50,000 people per political subdivision, is for the Small Business Administration to make 30 or so loans of not more than $1,000,000 each. For reference sake, 52 counties in Montana have fewer than 50,000 people, and 35 of those 52 counties have an unemployment rate greater than the national average. The point here is that should this bill become law, a fund of 30 million dollars is woefully inadequate, considering that 35 Montana counties need it just to get down to the National Unemployment rate average, and other states (e.g., Wyoming, North Dakota, Idaho, etc.) have problems similar to ours.

Equally as important, the bill's structure forces each rural community or loan applicant entity to gouge the other's heart out to get at the limited pool of resource dollars. Rural America's problems cut beyond a $30 million quick fix. The solution will rest with successful efforts by everyone: Federal, State, Local and Private interests, and it will take more than $30 million.

Because it will take more than $30 million, and our deficit is already staggering over a trillion dollars, why not let the market control access to capital. For example, Public Law 936 is specific to pharmaceutical industries who locate in Puerto Rico. There is no Federal Income Tax paid on any profit made from pharmaceutical products in Puerto Rico. That act went a long way toward reducing public assistance given the Commonwealth. Why can't this bill have a similar purpose in that it is designed to reduce the high unemployment rates? Delete the $30 million in loans, and provide rural America with tax credits or no Federal Income Taxes on profits on a 1-for-1 basis for those small business that continue to increase their workforce both in terms of numbers and total salaries paid by at least 10% per year. In other words, if a company grows by more than 10% a year, the company pays NO Federal Income Tax the next. Trust me, capital will find those businesses that grow at these rates! For large business, say greater than 100 workers, require a 5% increase per year.

A plan like this will allow the market to DRIVE, and CAPITAL will be a willing passenger. More importantly, jobs creation won't take a BACK SEAT.

TALKING POINTS:

1. Need to limit administrative costs of successful applicants similar to the Job Training Partnership Act.

2. Private Industry Councils may already be equipped to provide some technical services why pay for more administration when consolidated would help. (PIC's certainly have job training monies.)

3. There are many technical assistance programs available today. I can think of 4 without trying. UTAP, Women in Transition, Incubator Center, HRDC. What's needed is organization and real coordination.

4. Banks need ability to analyze the quality of a loan -- if it's a bad loan, it's a bad deal, why substitute easy money over discretionary prerogative of banks.

5. Montana in particular has the Board of Investments which does offer

   - loan guarantees
   - loans
   - equity capital
   - the Board requires an estimate of jobs created
   - and the Board provides technical assistance

6. If Government "loans" money to an applicant, then the Government must demand a given return on the investment or else that money will disappear.

7. Don't give grants to any entity -- Demand a needed product or service, and make that applicant work for every dime. Everyone will be better served.

8. Reports required. Because of its size and organizational structure (lacking definitive administrative ceilings), this program is unlikely to have an impact on

   - farm structure
   - income and exports
   - land values, etc.
   - for rural communities

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With respect to the Rural Access to Telecommunications Act of 1989, I find the purpose to be two-fold:

1. To improve basic services through low interest loans, and

2. provide 10 grants of $1.0 million each for each year -- 1990 through 1994 -- to test the feasibility of using advanced telecommunication technologies.

I agree that low-interest loans will provide an incentive for modernization of the existing rural telecommunications network.

I would delete all of Section 503, which authorizes the grants because of logic. Specifically, if one agrees that there is a problem and low-interest loans can help solve the problem by modernizing, then why does one want to provide a grant to test the feasibility of modernizing during the same time frame? Either we TEST, then ACT or ACT without TESTING, as opposed to ACTING and TESTING, as written in this bill. This latter approach is wasting money on the testing portion, because the systems will have already been in place by the time the testing is completed.

Thank you for the opportunity to comment on these two bills. As I mentioned, the problems are myriad, and the challenge certainly exists. Clearly though, we have to meet tomorrow's challenge today.

Senator BAUCUS. Karen, you're next.

STATEMENT OF KAREN HERMAN, ADMINISTRATOR, SWEET GRASS COMMUNITY HOSPITAL, BIG TIMBER, MT

Ms. HERMAN. Senator Baucus, Senator Burns, thank you for giving me this opportunity. I kind of feel like I'm a low man out here.

I have been an administrator for 4 years in a small rural hospital, and it has been a struggle in all of those 4 years. And I would say that this is probably the first two bills that I have seen come down that I feel will have a positive impact at least on the small rural facilities.

Just because we're rural does not mean that we're isolated. We need the information out there that other places are receiving. We need the high technology information. It will assist our physicians to be making decisions. It will allow my staff to have better access to education.

I foresee problems coming down the road for education for my staffing people. It's required that they have to have so many credits a year in services. I do not have access accessibility right now for that. I have to send them to Billings or someplace else on a limited basis.

If I had satellite capabilities, then I could do that training in-house. I would probably like to talk about linking with a large facility like Mr. Peoples suggested that he did with seven communities or seven counties. That is an option in the future that could be viable, but these larger places also have to have capital. I'm not going to be able to receive that capital for that amount of money, but I think larger places could do that and work networking.

I think the goal should be networking in Montana. We're talking about vast distances. What better way to communicate than through telecommunications. Our transportation system is not adequate yet. Our postal service is not adequate. We have to take a look at our options and I feel this is one bill that will be very beneficial to rural America.

Senator BAUCUS. Thank you very much.

[The prepared statement of Ms. Herman follows:]

Sweet Grass Community Hospital
Fifth & Hooper Street
P.O. Box 430
Big Timber, Montana 59011

May 24, 1989

TO: SUBCOMMITTEE ON RURAL ECONOMY & FAMILY FARMING

FROM: KAREN HERMAN, ADMINISTRATOR

Thank you for giving me the opportunity to voice my concern on issues effecting Montana as a whole and responding to Senator Baucus's S. 759 bill.

I have lived most of my life in Montana and have seen many changes occurring. We appreciate the vast beauty around us, but we are realizing our economy is in dire trouble. I have seen local students going off to college to further their education. On completion of their studies, these same students are leaving our state to seek jobs in their field or accept a job which pays significantly more out of state. This out-migration is not only occurring in our education but on our ranches, business, and laborers. The basic industry has not been able to afford incentives to stay in Montana. i.e. competitive salaries, culture, positions, etc.

One of the goals for Montana must be to maintain the basic industry we have now--agriculture, timber, and mining. We must insure these industries can afford to be in business in Montana. In turn, these businesses must consider adding value to their products to increase their viablity and financial return. Presently we are shipping all of our products to be finished by another business out of state. Montana needs to consider if there are some alternatives to this problem. Added value would increase economy, increase jobs-- industry would be able to provide higher salaries and keep professionals and laborers in our state.

The shortage of health professionals is becoming a serious problem for rural Montana. Right now I need registered nurses and a physician. These people are essential to my business. It is shown it is difficult to recruit and retain these professionals in our community. We need to provide a living, address their cultural needs and provide a method of their maintaining a high level of their skills.

Today's family in Montana ususally requires both spouses working to earn an adequate income. Often times the spouse of our professional can not find work in the area. Commuting is sometimes possible, but this is only a short time option for many.

Physician retention and recruitment is another major concern. This problem is many faceted. We must ensure the spouse and family will live in the community, the community has to support the local physician, and the physician must have access to higher technology to enhance his decision on patient treatment. The physician's business is tied to the hospital and the community. There must be a populace to care for, and this populace must be able to pay for the care. A community's viablity depends on the support system involved and how well they interact.

This interaction must occur in all phases of Montana's industry. There must be a way of communicating in all areas. The distribution of information allows for facts to be disseminated and shared by people to enhance decision making. Recently numerous Sweet Grass County residents are examining our local economy with the assistance of Dr. Dennis Winters from Butte, Montana. What has been brought home to us is that we are not unique in our problems in Montana. However, we are taking steps to start a process of change to hopefully counteract the loss of business in Sweet Grass County and loss of our residents.

I feel Senator Baucus's S. 759 bill, "Rural Access to Telecommunications Act of 1989" could have a favorable impact on economy for Montana. I see this giving the hospital the capabilites of interacting in a timely manner with such places as Mayo's. It would give the physician the capability of having reponses from other laboratories through communicating systems to enhance decision making processes.

Telecommunication will open doors of education and up-dating of skills for my community. It is a concern for myself and my staff that they maintain their skills. There are workshops offered throughout the state periodically for the medical field. The problem may be distance from my facility, cost, or my abililty to only be able to send a limited number of staff because of limited staff to cover shifts at the hospital. Telecommunication could open opportunities for these individuals. I also feel it would help ensure these professionals retention in my community. Maintaining a certain proficiency of skills is important to these people.

I agree telecommunication opportunites can be of assistance in many areas in our rural community. It is a viable possiblity that could have a favorable impact on our economy. We need to work together on whatever opportunites that exist to enhance Montana's chance of survival. We can not allow ourselves to be cut-off from the outside world when there are options available to us.

I will not respond to S. 863 other than to lend my support for this bill. I feel Senator Baucus is addressing some basic issues for Montana and I add support for both S.759 and S.863.

Sincerely,

Karen Herman
Administrator

Senator BAUCUS. Mr. Barksdale, you made an interesting statement; that is, that you found that local businesses—I assume you mean financial institutions in particular—just did not really seem to want to help an outfit like yours get going. Could you just elaborate on this a little bit?

It was a little bit of a startling statement frankly.

Mr. BARKSDALE. We were turned down by every bank in Bozeman. And, you know, they—even Belgrade had a $40,000, the city had a $40,000 fund that they had gotten from—a grant was given to another company, and as they pay it back, it goes to the city. I forget what they call that, but they had $40,000. They came to me and asked me to apply for it. I said, "No, I don't want the publicity when you turn me down."

So then they came back and asked me again, so I applied and they turned me down.

We just haven't been able to get any money.

Senator BAUCUS. What explains your inability to get money? What's going on?

Mr. BARKSDALE. I think that the mail order business is not something that is normal for the bankers; that they're not looking at that kind of business normally. They're mostly either farm bankers or they're—this is not a normal type of business. Also we're new in the community; nobody knows us.

Senator BAUCUS. So what you're saying is that most Montana financial institutions will only make the kind of loans that they have historically made?

Mr. BARKSDALE. Right.

Senator BAUCUS. But they are unaccustomed to different loans for different businesses because they just don't have the historical experience?

Mr. BARKSDALE. Yes.

Senator BAUCUS. Well, what should we do about it?

Mr. BARKSDALE. I don't know. I think that what you're proposing would be helpful. I think other than that, I don't know. I think it's just a matter of new business moving into the—as new businesses move in here and the economy changes, which it's going to do, it's going to become more service oriented. They are going to have more mail order businesses come here because this is an ideal climate for mail orders.

Senator BAUCUS. That's true.

Mr. BARKSDALE. Mail order doesn't do well in the cities; it does very well in the country.

Senator BAUCUS. Why? Workforce?

Mr. BARKSDALE. Workforce, yes. Throughout, like Land's End is way out in the middle of Wisconsin. You've got a better work ethic, smarter people in general. And people care about their jobs. They don't care about their jobs in the city.

Senator BAUCUS. Why aren't there more mail order firms in our State? What are some of the other impediments?

Mr. BARKSDALE. In general, I think a lot of people in the mail order business have come out of the cities. They think Montana is in Alaska. They don't really know where the State is.

Senator BAUCUS. That's true. They don't know where Wyoming is either. So many times I meet people and tell them I'm from

Montana. Later I'll see the same people and they'll say, "How's Wyoming?"

A lot of us don't know where a lot of those eastern States are, either.

Mr. BARKSDALE. That's true, but you've got Pategonia. Pategonia is probably going to move, in the next couple of years—from my information anyway—it's probably going to move its whole mill or operation here. It just has its phone room now, which is 50 employees, so that's going to go to four or five hundred people.

I think there would be more people come, but they are scattered. There aren't that many mail order firms, and they're scattered all over the midwest now. There are quite a few of them in the rural, mid-western area.

Senator BAUCUS. Karen, I think you're right about networking. I think your point is very valid. You no doubt know of the possible effect hospital networking has in Montana.

Conrad.

Senator BURNS. Just a couple of questions. Thank you, Mr. Chairman.

Mr. Barksdale, you made a statement about matching money from the local community in this kind of a situation. What do you mean by that? Do you mean Government entities in a local community or what?

Mr. BARKSDALE. No. As I understand the legislation, there has to be matching funds for the Federal funds, so that——

Senator BURNS. Where do those matching funds come from?

Mr. BARKSDALE. Well, they're either going to come from, there's a nonprofit organization, probably a local one that's going to get them from wherever they can get them. I don't know.

Senator BAUCUS. Well, under the bill a nonprofit entity must get matching funds from a local regular private financial institution.

Mr. BARKSDALE. Right.

Senator BURNS. In other words, but not from a local Government entity?

Mr. BARKSDALE. No, I don't think so.

Senator BURNS. Those were community block grant funds that you were talking about before?

Mr. BARKSDALE. That's right.

Senator BURNS. Which has a matching provision as far as the Government entity. We have a situation, as Mike talked about a while ago, where you have got such strains now on local government budgets and school budgets, that matching funds—anything that the Federal Government comes up with to make matching funds from local entities—makes local government very expensive. The poorer counties can't afford the match, so the poorer counties get poorer in that situation.

John, I appreciate your testimony because there's some answers in there. There's some direction and maybe that's what we should be looking at, and I appreciate that.

Ms. Herman, I have just a question for you just—now you say your transportation is inadequate. You got a railroad and interstate going through Big Timber. Did you want an airline?

Ms. HERMAN. We talked about sending medical information out, and say it says, "Send it to Mayo."

Well, I'm looking at 3, 4 days for it to get there. I need a turnaround time, and telecommunications will provide that because what they'll do is either FAX that information to me or some type of—I can't afford to have it come back because patients and my physicians want to have that information if they're going to have to treat that patient with that information from Mayo's or from Billings or from Portland or wherever they have to send it to me.

Senator BURNS. What you're saying here is the Access to Telecommunications Act probably addresses your needs more than anything else?

Ms. HERMAN. Yes, it does.

Senator BURNS. OK, and I fully agree with you on that, fully agree with you. That's all I have.

I want to thank everybody that has testified and thank you, Mr. Chairman, for holding this hearing here.

Senator BAUCUS. Karen mentioned the FAX. It reminded me of a story that recently occurred in my office. About a month ago, a person working for me in Bozeman, Mike Miles, tried to send a FAX to China. Many of you know, a Bozeman student was in China, traveling up the Yangtze River. He was mugged and in the hospital in China. His parents obviously were very concerned about him. My office was heavily involved in communications back and forth with the American and Chinese authorities.

Well anyway, about a month ago Mike was going to FAX a message over to the relevant authority. Mike got the telephone number of the FAX, figured out the time zone differential, and got everything lined up. He dialed the number, and waited for that crazy screeching sound you hear when you took up the FAX. Well, Mike dialed the number and stood ready to hear this screechy sound. All of a sudden he heard someone answer the phone in Chinese. Mike just about died. He did not know a word of Chinese. He tried to say "America," and "student."

Again he just heard chatter back in Chinese. The Chinese person was very excited, but Mike couldn't get in a word—no communication.

Finally, Mike heard this person put the phone down. All he could hear were footsteps. Obviously, the person had left. Then Mike could hear other footsteps come back. He could tell they were different footsteps. Someone else got on the phone and just, again, Chinese.

Mike was beside himself.

So finally he said, just out of sheer frustration, "FAX."

Then he heard on the other end, "Ah, FAX," and then he heard the screeching sound and put the phone down. So we were connected.

Clearly, the Chinese know the importance of the FAX, too.

Well, this has been a very helpful hearing. I have heard a lot of good ideas. Every little bit helps, and I thank each of the witnesses for coming.

I think my bills will pass in some form this Congress. They will probably be incorporated into an omnibus rural bill that is expected to pass the Senate sometime during the summer.

Thank you very much.

[Whereupon, the hearing was concluded at 11:55 a.m.]

APPENDIX

Hardin Area Chamber of Commerce and Agriculture, Inc.

204 North Center Avenue (406) 665-1672 Hardin, Montana 59034

Senator Max Baucus
Co-Chairman
Rural Economy and Family
Farming Subcommittee
United State Senate
Washington, D.C.

Reference: Testimony S. 863

Dear Chairman Baucus,
and members of the Senate Subcommittee:

The Hardin Area Chamber of Commerce and Agriculture, and Big Horn Economic Development Corporation is pleased to go on record in support of S. 863, the "Rural Access to Capital Act of 1989".

We unquestionably agree with the need to find innovative solutions that will enable rural business to develop and compete in the market place. As is noted in your introductory comments to S. 863, economic development opportunities in rural areas are often lost for lack of appropriate tools to capitalize or leverage financing to encourage new business.

By the very nature of banking regulations, our conventional lenders are not allowed to be "risk takers" with depositor funds: yet so often, it is a small amount of risk capital, or leveraged financing, that allows fledgling businesses to develop into a successful enterprises.

We have reviewed the proposed legislation, and it goes without elaboration that we substantially agree and would support this endeavor.

We would, however, encourage your committee to add a funding criteria that would allow some kind of preferential treatment for rural areas who have an unemployment rate equal to or greater than the state average for the past year. Our rational, consistent with traditional federal policy, is based in the belief that limited technical assistance and funding resources should be spent only in areas of the greatest need. Unemployment is certainly a grahpic indicator of economic need.

While community plans that have been well thought-out, and local development corporations or governments with good performance records are important, if the presentation of a 'good plan' is the major criteria for selecting non-profit or local government participants, especially in the Micro-business segment of the

proposed legislation, then those areas already fairing better than average may find this legislation a substantial windfall. S.863 has the potential to assist communities who often have the least amount of resources, and yet usually suffer the greatest amount economic distress.

We, in the Hardin area concerned with economic development, thank you and your fellow committee members for the opportunity to enter this letter as testimony in support of S. 863. We wish we had been able to deliver our message in person; unfortunately, schedules and distance have prevented us from doing so.

Thank you very much for your time and attention.

Sincerely,

Mr. Larry Thompson,
President,
Hardin Area Chamber of Commerce
and Agriculture

Mr. Keith Brighton
Chairman,
Economic Development Committee

Mr. Erle Gross
President,
Big Horn Development Corporation

cc: Big Horn County Board of Commissioners
City of Hardin
Town of Lodge Grass

EXECUTIVE DIRECTOR:
Tony Preite
DEPUTY DIRECTOR:
Dick King
ADMINISTRATIVE ASSISTANT:
Jenny Morse

Bear Paw Development Corporation

of

Northern Montana

P.O. BOX 1549 HAVRE, MONTANA 59501

TELEPHONE: 406-265-9226
406-265-5602

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1989 MAY 26 AM 10 15

May 23, 1989

Senator Max Baucus
5327 Dirksen Building
Washington, D.C. 20510

Dear Max:

Enclosed is a discussion paper relative to the purposed Rural Development legislation.

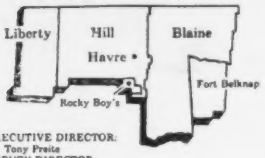
I want to congratulate you for your tenacity in pursuing meaningful rural legislation. As you can determine from the enclosed comments, our preference as to the delivery agency is the Economic Development Administration. However, if that is not possible, hopefully a memorandum of understanding or some other method could be adopted to insure the coordination of activities of all rural development agencies.

Again, we want to highly commend you for your aggressive efforts to provide rural development assistance programs to Montana residents.

Sincerely,

Tony Preite
Executive Director

cc: Donald X. Driscoll, Mayor, City of Havre
George Vande Ven, Mayor, City of Chinook
David Boisvert, Mayor, City of Harlem
Wayne Wardell, Mayor, Town of Chester
Hill County Commissioners
Blaine County Commissioners
Liberty County Commissioners



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TESTIMONY

Rural Development Legislation

Thank you for the opportunity to make our views known relative to the economic development climate in rural areas of the country such as Montana and rural development legislation in particular.

This legislation if passed would be important in providing local economic development agencies with a necessary tool in their efforts to expand rural business and create local job opportunities.

Bear Paw Development Corporation is a substate, multi-county planning and development organization serving the Counties of Hill, Blaine and Liberty and the Cities of Havre, Chinook, Harlem and Chester. In addition, services are also provided to the Towns of Box Elder, Hogland, Turner, Kremlin, Gildford, Hingham, Inverness and Joplin. The Indian Reservations of Rocky Boy's and Fort Belknap are also served. We are the only District in Montana and have served continuously over the past twenty-one years.

Most often, rural America is equated with just farming. Although we acknowledge the overwhelming importance of agriculture in Montana, it must be noted that agriculture family income must be supplemented by non-direct agriculture sources. In fact, nation-wide over 60% of farm family incomes come from non-agriculture sources.

Rural America including Montana has not recovered from the recession of the early 1980s. International competition, lack of a well-trained workforce, poor infrastructure and limited government programs have contributed to rural America's downward spiral. Since 1979 the nonmetropolitan employment rate has grown at only 38 percent of the metropolitan rate. Although 25 percent of the nation lives in rural areas, these areas have only 20 percent of the nation's jobs. In 1987, rural unemployment reached 7.9 percent, two percentage points above the national average.

A struggling economy and a poor quality of life are often interrelated, and rural residents continue to suffer. While 20 percent of the urban population lives in poverty, 34 percent of all rural people are poverty stricken. Infant mortality is up to one third higher in rural areas than the national average. The disproportionately high rural elderly population suffers through inadequate medical care. Schools struggle to provide basic educational needs to the upcoming workforce.

Much of small metropolitan and rural America's infrastructure is inadequate. Public investment in the maintenance and construction of roads, bridges and other public works has declined drastically in the last decade. Federal grant and loan programs for community and economic development have been cut by 74 percent since 1980. As Federalism has come to mean federal inaction, rural areas have come to rely more and more on diminishing local resources to survive.

Is there any hope for the resurrection and revival of a vibrant rural economy? In our opinion, only if local, state and federal agencies work closely together and in fact commit resources and funds toward rural planning and economic development. Federal sources of funds from agencies such as the Community Development Block Grant Programs (administered by the Montana DOC), the Economic Development Administration along with programs of the Farmers Home Administration and of the Small Business Administration must be understood and fully utilized in conjunction with local resources if the downward economic spiral is to be reversed.

Local communities need federal and state assistance to develop healthy local economies. During the 1980s, reductions in federal spending for community and economic development have limited the reach of many vital programs. The federal government can and should encourage the economic growth and diversification of small metropolitan and rural areas.

Strategic planning, infrastructure improvements, and small business assistance are the most important factors in the creation of private sector jobs and viable communities. Strategic planning helps a community to identify its assets and liabilities. Local officials and the private sector can then determine the best approach to development for their region. Without an adequate infrastructure, however, no community can sustain economic development. Only through modern roads, bridges, and telecommunication systems can rural communities overcome their isolation. Small business financing is also a fundamental requirement for economic development. Rural business owners need government programs such as revolving loan funds and loan guarantees to help create opportunities for growth. These three priorities -- strategic planning, infrastructure improvement, and small business assistance -- are essential for rural America to develop and compete in the global market of the 21st century. All development is local. Local governments are the permanent institutions capable of achieving long-term improvements in their communities.

Not only do we strongly support the concept of this rural development legislation, we firmly believe that funding should be increased to provide blanket coverage state-wide which would better enable all areas of Montana to help themselves. We further believe that funds be made available only after close scrutiny of the recipient agency by the federal agency involved. There must be in place professional staff capability at the local level if this program is to be successful.

Therefore, we cannot over-emphasize our opinion that this new legislation standing alone as an isolated operation will in all probability fail to achieve its intended purpose. Only if it is included as part of an existing integral planning and development organization will success be attained.

No discussion of economic development needs in rural America would be complete without a review of the role of the Small Business Administration. It has been our experience that SBA's programs have been handcuffed by credit requirements that prevent many small businesses from receiving assistance. A recent survey completed by the Montana Department of Commerce revealed that loans under $100,000 are seldom, if ever, given serious consideration for SBA's guarantee program. SBA's guarantee program is "lender driven" and, as such, is unable to adequately meet the needs for risk capital and gap financing that seriously restrict economic development deals in rural areas. Credit decisions at most Montana banks are made at corporate headquarters, often located in metropolitan areas, rather than at the local level. It is no surprise that these decisions seldom reflect the needs of local rural areas. Obviously, one solution would be re-authorization of SBA's direct loan program.

It is also our opinion that economic development funds should not be administered through the Department of Agriculture. Agencies such as the Extension Service should continue to play their present role. It makes no sense to attempt to create an economic development position within local extension agencies. In order to attain a successful local economic development program the development organization must be fully operational. To merely create a position in the extension service and place a person in it to carry out the very complicated task of creating new job opportunities is not a prudent use of scarce funds nor is it fair to the extension service.

Agriculture in general and filling the specific needs of farmers and ranchers should be the goal and mission of the Department of Agriculture. Insuring the success of farmers and ranchers is a full time job. Employees of the Department should expend 100% of their energy in assuring that local agricultural producers are provided with every available tool to insure that their farms and ranches operate at full efficiency. In short, the well being of farmers and ranchers is too important to be deprived of the total efforts of Department of Agriculture officials. If agencies such as the Extension Services are in need of more funding in order to directly assist with farm and ranch problems, then more funding should be made available to them. However, we must again state that just as farm and ranch advisers must possess certain expertise so to must those persons involved in economic development. In both instances, there must be in place experienced support personnel ready to provide the necessary back up.

The best example we can provide related to revolving loan programs is the one we are currently operating. We recently received a $350,000 grant from EDA matched locally by $350,000. This enabled our Revolving Loan Fund to be capitalized at $700,000. We have already expended these funds by providing financing for two recently opened manufacturing plants. These plants will create meaningful basic jobs for the unemployed in our District. At this time, we have requests from private firms for participation in our program. Although these firms would create additional basic jobs, we cannot provide this gap financing because our Revolving Loan Fund is currently depleted. We are in dire need of re-capitalization which will not occur because the EDA has expended their funds. The Small Business Administration and local lending institutions will not provide this gap financing, so, therefore, these new basic jobs will in all probability be lost.

The EDA has a long standing excellent track record when it comes to reaching rural America with brick and mortar funds as well as planning programs. Please be reminded, that as long ago as the early 1970s the EDA has always responded positively to assigned missions. This was the agency chosen at that time to deliver more than one billion dollars worth of public works projects to needy communities and they responded in a highly creative manner. The program (PWIP) was a great stimulus to the economy. Be further reminded, that this was no "great society" program. This legislation was enacted during the Presidency of Richard Nixon.

It is our opinion, based on more than twenty years in the job creating business, that the best method of delivery for rural economic development to local areas is through the Economic Development Administration. EDA has a proven track record when it comes to delivery of services and programs to rural areas. The EDA has an ongoing economic development revolving loan program which is in need of greater funding. The delivery system is in place under EDA. We believe it would be a duplication to create another revolving loan program and place it in another federal agency. For more than twenty years, our local elected officials including county commissioners, mayors and councilpersons have bought into our local development organization. Cities and counties have participated with personal involvement as well as contributing scarce local funds. This twenty year partnership between local officials and the Economic Development Administration has been highly successful. It will be even more beneficial if EDA is provided more resources. We strongly urge that the Economic Development Administration be chosen as the delivery agency on this new rural development legislation.

In closing, we want to commend members of the Congress for drafting and promoting this legislation. Please be assured that with proper implementation this program will greatly benefit local efforts to create job opportunities through small business development and expansion. Therefore, we strongly recommend the adoption of meaningful rural development legislation.

Be advised that I will be available for further discussion at this time or in the future.

Sincerely,

Tony Preite

Tony Preite
Executive Director

CITY OF HAVRE

Phone (406)265-6719
P.O. Box 231
HAVRE, MONTANA 59501

May 17, 1989

Senator Max Baucus
5327 Dirksen Building
Washington, D.C. 20510

Dear ~~Senator Baucus~~ Max:

During a recent trip to the Butte/Helena area, it was brought to my attention that there is pending legislation regarding rural economic development. I also learned that these funds were targeted to be distributed by the Small Business Administration and the Extension Service. I want you to know that my experience in dealing with the SBA on local economic development projects has not been rewarding. I also believe that the Extension Service is probably better geared to deal with agriculture problems directly affecting farmers.

As I related to Shawn Egan, I am very much in favor of this new rural development legislation, it is long overdue. I must, however, tell you that we believe the Economic Development Administration should be the lead agency in rural development. The EDA has been and continues to be the only agency involved in all aspects of rural development. If it were not for the EDA, Havre would not be home to such industries as the Burlington Northern Railroad, Big Bud Tractors, Northern Montana College and other companies. The EDA and Havre/Hill County have enjoyed a long beneficial relationship. The public works grants from EDA helped us update our infrastructure and respond to local industry needs. The only problem with EDA is that it is grossly underfunded.

Cities and counties in Northern Montana have enjoyed a twenty year involvement with the Bear Paw Development Planning Agency. Please be advised that if this legislation provides new planning funds or revolving loans we strongly urge that top priority be provided to this organization. For more than twenty years, area cities and counties along with two Indian Reservations have joined together to plan our destiny. We have a great amount of time and funds invested in Bear Paw Development Corporation. I might add,

our long involvement with this organization is worth every penny. My point is that we have an organization that works, please insure that pending legislation strengthens rather than divides local development efforts.

I want to especially thank you for your past assistance and in particular your recent support for the Big Bud and Liberty manufacturing projects. We are very proud of these two accomplisments.

I look forward to your next visit to our area.

Sincerely,

Donald X. Driscoll

Donald X. Driscoll
Mayor

To: Montana Editors, Reporters and News Directors
From: Max Baucus
Date: May 24, 1989
Subject: Rural Economic Development Legislation

When I talk to Montanans about what concerns them most, the answer is always the same -- jobs. How are we going to keep the jobs we have? How are we going to attract new jobs to our state? As the following statistics from a recent state study show, our economy is faltering:

-- During the 1980's, our last economic boom ended. Our goods producing industries (agriculture, mining, construction and manufacturing) lost 12,000 jobs. Total worker earnings in these industries declined 25 percent.

-- Per capita income has declined to about 80 percent of the national average. In 1978, 12.6 percent of Montanans lived below the poverty line; in 1985, that figure rose to 16.1 percent (two percent higher than the national average).

-- Since 1980, about 29,000 more people moved out of Montana than moved in.

-- Montana's economy generated about 14,000 new jobs from 1979 to 1987. If our economy had grown at the same rate as the rest of the country, that number would have been 63,000.

-- Montana ranked 10th in the country in 1987 in new business formations. Nearly 5000 new businesses were formed between June 1984 and June 1986. Almost 90 percent of these businesses were still operating after two years. That's the good news. The bad news is that these businesses are not growing very fast. Although Montana ranks 10th in new businesses, it ranks 48th in new business growth.

Hearings I held both in Montana and Washington last year showed that the major barriers to economic development in rural America are lack of adequate telecommunications infrastructure, lack of capital, lack of access to transportation and insufficient education and retraining programs. The hearing I'm holding today will focus on the legislation I have developed so far this year to help overcome two of these barriers.

Telecommunications

Our country is undergoing a dramatic transition into the "Information Age." Experts predict that by the year 2000, 66 percent of the American workforce will be employed in information services. From 1970 to 1980, some 90 percent of the new jobs created involved information and service activities.

Today, telecommunications is as critical to rural America's future

as rural electricity, railway and highway systems have been in the past. Still, many rural areas do not have essential private lines, touchtone phones or digital switching.

On April 11, I introduced legislation that would establish a "Rural Telecommunications Incentive Fund" at the Rural Electrification Administration (REA). The fund would be used to make low-interest loans to co-ops and other telephone companies that provide service in rural areas for the purpose of bringing "state-of-the-art" telecommunications services to residents, businesses, hospitals and schools by the year 1994.

In addition, the legislation would fund ten pilot projects across the country to test the feasibility of using advanced telecommunications technologies to transmit or receive business, or other data, to and from rural communities.

Access to Capital

Access to capital is essential to economic growth. Rural America is experiencing particularly difficult times acquiring capital largely because of conservative banking policies that have come about as a result of the farm crisis.

On April 19, I introduced the Rural Access to Capital Act. This bill would set up a $30 million revolving loan fund through the Small Business Administration. Non-profit organizations such as local chambers of commerce or economic development corporations would be able to draw from the fund to make loans to rural businesses that were unable to get private financing. In order to use the SBA fund, the local organization would have to get a matching commitment of private financing from local banks or savings and loan institutions. This arrangement would encourage private institutions to invest in rural businesses. The maximum loan through the program would be $300,000.

This legislation also sets up a separate fund that would provide smaller loans to businesses employing 15 people or less. The purpose of this fund is to give small businesses access to seed money and technical assistance. The maximum money available would be $25,000.

On May 17, I introduced a bill to establish a $10 million rural business incubation fund at the REA. This fund would be used to make grants or low-interest loans to REA borrowers to develop business incubators. The fund could underwrite technical assistance, advice, loans or capital to business incubation programs already in existence. Or it could help create and operate new ones.

DEPARTMENT OF COMMERCE

STEVE STEPHENS, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444 3494

HELENA, MONTANA 59620-0401

May 16, 1989

Senator Max Baucus
U.S. Senate
SH-706 Hart Senate Office Building
Washington, DC 20510

RE: Testimony for Senate Bill 863

Dear Senator Baucus:

The past three years I've been employed by Montana's Department of Commerce, Business Assistance Division. In carrying out the duties of my position of finance officer I've interacted on a counseling basis with businesses from Eureka to Ekalaka and Wolf Point to Darby. In the course of this counseling I've been successful in assisting many businesses in various types of public and private financing using conventional bank financing, bank financing using Small Business Administration guarantees and Montana Board of Investment Coal Tax Loan funds, Economic Development Administration funds, Community Development Block Grant funds, Montana Science and Technology Alliance funds, equity sales of corporate stock and "love money" from "corporate angels." This experience has given me a very intimate understanding of financing needs of rural America, as well as working knowledge of federal and state programs available to assist these businesses.

Accordingly, I'm excited to see our national leadership recognize there is an economic crisis in rural America. This crisis does not stem from an unmotivated, uneducated or unavailable labor force or lack of ingenuity, creativity or willingness to take risk. My perception (accumulated through experience) tells me the entrepreneurs in rural America often lack a clear vision of the steps required to implement their dreams; and they often lack the near equity "micro funds" to get their dream to commercialization, and grow their business to a scale that can be accommodated by conventional commercial lenders and public finance programs.

Therefore, with the following suggested alterations to Senate Bill 863, I emphatically support your efforts.

* A far larger need exists in technical assistance and micro financing needs than it does in low interest loans as outlined in Title I of the bill. I would, therefore, recommend the appropriations to Title I be shifted to Title II and Title I be deleted in its entirety. There are plenty of strong (small) projects that can support market rates of interest. What's needed is a delivery system for finance, not a subsidized interest rate.

* To make any noticeable impact the technical assistance fund should have at least $15 million appropriated to it.

* I would not support the use of public dollars for loan guarantees or equity capital grants under any program in the bill.

* Title II, Section 203(d) should be altered to make only Economic Development Administration (EDA) districts eligible. This will enable those areas with the greatest need to be assisted by this limited amount of money.

* Title II, section 203(d)(2) should have added as a criteria for lending that the interest rate charged to the loan applicant be equal to the corresponding treasury bill rate. This rate to be decreased to a low point of 5% with the reduction being based on profitability over industry norms for that businesses standard industry code. The interest rate should be reduced based on a formula for profitability and full-time employment creation.

* Technical assistance grants should be given preference to EDA eligible districts only and a "preferred counseling center" designation should be earned by the recipient center for future successes. This should be administered much like the SBA's "preferred lender" program.

* The loan amount should be increased to $50,000.

In closing I would like to restate my support of this bill based on the suggested alterations. I've made references to EDA and SBA in my comments. My only implication as to administration of this program once passed would be that whichever agency administers the program, the only eligible applicants would be designated EDA districts.

I appreciate the opportunity to offer input to our legislative process.

Sincerely,

Barry

Barry C. Roose
Finance Officer
DOC/Business Assistance Division
(406) 444-4325

BCR/ke

DEPARTMENT OF COMMERCE

STAN STEPHENS, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444-3494

HELENA, MONTANA 59620-0401

May 16, 1989

Senator Max Baucus
U.S. Senate
SH-706 Hart Senate Office Building
Washington, DC 20510

RE: Senate Bill 759 Testimony

Dear Senator Baucus:

I am currently, and have been for the last three years, a finance officer with the State of Montana's Department of Commerce, Business Assistance Division. In the process of carrying out the duties of my position I've been in contact with many firms who have communication as a driving motivation for either establishing a business in rural America or maintaining their presence there.

In section 2 Finding paragraph (10) is stated "rural telecommunications....must be a major asset in promoting rural growth" I submit that it not only must be, but has surfaced in Montana as a niche market for business growth. Omni Marketing, Inc. in Great Falls was started and is expanding in Great Falls, Applied Information Services, Inc. in Whitefish was started there and is expanding rapidly, and Patagonia located its corporate facilities and telemarketing from Ventura, California. In each case the companies cite available work force, a good work ethic, available trunk lines and no accents by operators being paramount in their decision process.

I support your efforts to attempt to assist the telemarketing industries expansion to rural America. Assisting a potentially high growth industry to locate and expand in rural America and removing the barriers associated with doing business there is an appropriate function of federal legislation.

Sincerely,

Barry

Barry C. Roose
Finance Officer
DOC/Business Assistance Division
(406) 444-4325

BCR/ke

LEWISTOWN/FERGUS COUNTY
PLANNING BOARDS

May 16, 1989

Senator Max Baucus, Chairman
Rural Economy and Family
Farming Subcommittee
202 Fratt Building
2817 Second Avenue North
Billings, MT 59101

RE: S. 759: Rural Access to Telecommunications Act of 1989

Dear Max:

I am delighted to provide my assessment of why individuals are relocating outside Montana and how to reverse this trend as well as recommendations concerning S.759: Rural Access to Telecommunications Act of 1989.

There appears to be a nationwide trend of young, educated individuals relocating from rural to urban areas because these locales provide enhanced opportunities for upward career mobility within stimulating environments and greater certainty of recouping their residential and commercial investment within a perceived dynamic atmosphere.

Community investment may be proportional to one's satisfaction with the opportunities the area provides. Opportunities are viewed differently among age groups. We encounter many newly retired Heartland Montana residents who have relocated from outstate urban locales. Their prioritized needs changed from juggling the economics of child-rearing to meeting individual aesthetic desires for quieter, reflective living where monetary concerns are secondary.

Reversing the youth exodus trend may involve removing some of the rural isolation barriers, such as providing increased access to telecommunications so as to negate distance to markets. Increasing commercial development in rural areas will stimulate additional growth. This will relieve some infrastructural pressure on urban centers. Nevertheless, we must encourage the skilled to want to live in Montana. Low cost of living, low crime rate, and aesthetics alone will not convince youth to remain in rural areas. Economics motivate their locational choice.

FERGUS COUNTY COURTHOUSE, LEWISTOWN, MONTANA 59457 - PHONE (406)538-9048

History certainly teaches us. Cottage industries flourished during the homesteading period because entrepreneurs identified growing community needs and utilized the skills their parents and grandparents taught them to meet these needs. Perhaps we could market our rural areas to retired business people as a way to meet their residential quality of life desires, but also provide incentives for them to apprentice youth and develop business partnerships.

The proposed Rural Telecommunications Incentive Fund provides an avenue to diminish the rural-urban investment dichotomy. Existing rural telephone service providers should be encouraged to contract with urban telecommunications providers in disseminating their acquired knowledge.

I offer these recommendations to enhance the bill's effectiveness:

- Establish a minimum lending rate, but expand the range of interest rates so as to set the maximum as a percentage of the existing Treasury note yield. The loan program should determine the individual borrower's interest rate based on sufficient cash flow to cover debt service, while considering an acceptable return on investment.

- The term "adequate return on investment" should be defined because it carries broad implications. "Adequate" should equate with comparable alternative investment potential, allowing for a higher risk margin.

- Telecommunications loans should not be provided in rural areas incurring obsolescence, where community public facilities infrastructure is deteriorating and there are no plans for replacement. Sanitary water and sewer systems accord priority.

- Funds should be available not only for telecommunications infrastructure, but also service marketing. Rural areas should be surveyed as to whether they want improved telecommunications and the amount they would be willing to pay for the service. Demand may decline sharply if the investment required is inconsistent with perceived benefits. Low rural wages will not stimulate philanthropy.

- Congress should review an annual program evaluation detailing the amounts of loan funds provided, geographical dispersion, and reasons for differential program effectiveness.

S. 759's ultimate barometer of success will not be the degree of progress in providing advanced telecommunications to rural areas, but the facility with which these services are embraced to create employment and disrupt the outward flow of human resources.

Rural locales succumb slowly to change. This quality is part of their attraction as well as their decline. We must create a need in rural residents of wanting to exchange their isolation for economic prosperity and provide a support network to effectuate this change.

Thank you for the opportunity to comment on stimulating rural economic development, Max. I appreciate your efforts.

Sincerely,

Elly Walkowiak

Elly Walkowiak, Director
Lewistown/Fergus County Planning

EW/bw
cc: Tamara McCann, Legislative Assistant

P.S If you would like to discuss these ideas further while you visit Lewistown on May 25th, please let me know

LEWISTOWN/FERGUS COUNTY PLANNING BOARDS

May 16, 1989

Senator Max Baucus, Chairman
Rural Economy and Family
Farming Subcommittee
202 Fratt Building
2817 Second Avenue North
Billings, MT 59101

RE: S. 863: Rural Access to Capital Act of 1989

Dear Max:

I am delighted to provide my recommendations concerning S.863: Rural Access to Capital Act of 1989.

The proposed Rural Partnership Fund and Microbusiness Loan and Technical Assistance Fund attempt to encourage private investment in rural businesses to diminish the disparity in distribution of wealth concentrated in urban centers vs. rural communities. It will be very important to differentiate between the availability of loans and their accessibility. Accessibility involves marketing the program effectively, streamlining the application process, and evaluating and adapting program criteria annually to encourage response.

I offer these recommendations to enhance the bill's effectiveness:

- Rural Partnership and Microbusiness Loan and Technical Assistance Funds should be geographically dispersed throughout the nation so as to eliminate disproportionate regional funding.

- The nationwide competition to administer these funds should encourage entities within states to apply initially. Clearing-houses for projects can be established by selecting the best applicant from each state.

- The Congressional Record specifies that Rural Partnership Fund applicants provide one none-Federal dollar for each partnership fund dollar, but S.863 does not address this proviso.

FERGUS COUNTY COURTHOUSE, LEWISTOWN, MONTANA 59457 - PHONE (406)538-9046

- The economic development workplan should offer sufficient detail to determine the quality of the projects. These questions should be addressed: (1) Will cash flow be greater than debt service with the loan? (2) Do projected trends indicate growing market demand for the product or service?

- Each administrative entity should provide Congress an annual program evaluation detailing the types of projects funded, employment creation rate, and recommendations to bolster the loan programs.

Most of the entrepreneurs I have encountered need $10,000-$25,000 to diversify their existing businesses or develop new ventures. These small-scale loans are extremely difficult to access. This legislation will facilitate small business development, especially if cash flow from operations and character of the entrepreneur supersede the importance of collateral in lending. The higher risks may be worth taking.

Thank you for the opportunity to comment on stimulating rural economic development. I appreciate your efforts, Max.

Sincerely,

Elly Walkowiak

Elly Walkowiak, Director
Lewistown/Fergus County Planning

EW/bw
cc: Tamara McCann, Legislative Assistant

P.S. If you would like to discuss these ideas when you visit Lewistown on May 25th, please let me know.

SCIENTIFIC-MATERIALS CORP.
310 Icepond Road
P.O. Box 786
Bozeman, MT 59715
406-585-3772

May 22, 1989

The Honorables Senator Baucus, Senator Burns, Other Committee Members and Interested Parties.

Dear Senators:

My name is Ralph L. Hutcheson, President of Scientific Materials Corporation, a new startup company located in Bozeman, Montana. I am a Montana native, educated in Montana schools and a graduate with honors in Mechanical Engineering from Montana State University. I have thirty-six years industrial experience including sixteen years in the Midwest in both technical and production supervision and management, and sixteen years in Southern California in both large and small businesses in engineering, sales and administration. I have been involved in three startups with considerable experience in venture capital and venture funding.

I have devoted the last four years exclusively to the startup of this business, first in Oregon and then in Montana. I firmly believe I have a business needed by the laser industry and that I have a business suited to the available infrastructure of the State of Montana. Support of these beliefs is Scientific Materials Corporation has been awarded a Phase II SBIR contract by NASA Langley Research Center, and the company was approved for funding by the Montana Science and Technology Alliance prior to the Montana Supreme Court decision declaring the funding unconstitutional.

To date the Scientific Materials project has been supported by myself through my friends with a direct contribution of $496,000. For the business to achieve the size which I consider ideal for Montana, which is approximately $10 million annual sales, we will require an additional $1 million. Based on my experience over the past eighteen months working on funding in Montana, I believe over 50% of this money will necessarily be raised outside Montana. I do not currently see sources within the state.

During the course of my endeavors to develop this business, I have talked and made proposals to local development boards, development corporations, and numerous individuals. With the exception of MSTA, I have found the primary inhibition to local development is so-called "banker's mentality," or balance sheet syndrome. In my opinion, the problem has inhibited Montana business development because it makes it nearly impossible to

attract outside entrepreneurs. The syndrome fails to recognize the value of any business is not its assets but its ability to utilize assets on a profitable basis. Realistic entrepreneurial investment is more like a 5 to 1 ratio of new dollars to old dollars, certainly not a 1 to 2 ratio such as has been proposed to me by one local development board.

The development of rural America requires aid and there is no question in my mind the most logical source is the Federal government. There is local investment money. What is lacking is the professional support to enable the local investment groups to wisely and effectively utilize these funds. Because the local groups invest by opinion and not facts, the decisions become largely political and often end in failure.

Referring to Senate Bill S863, I feel an ideal opportunity has been presented to accomplish the real goals of local rural development. The bill can be strengthened consideraly by utilizing the SBA to provide the professional help the local groups so desperately need. I would like to make the following recommendations to achieve the results I believe are necessary to improve local rural development.

(1) Each district office of the SBA with qualifying rural districts be staffed with a technical and financial staff member, with full time responsibility to aid and assist local development committees in planning and marketing. Each local group must develop a "business plan" to participate in the program.

(2) The SBA law be modified to support the development of local SBICs to support the "business plan" of the local rural area. The program would be funded by the $30 million Title I funds.

(3) The funding process time increment from funding application to decision be less than 90 days. (This is critical to successful development.)

(4) The SBA Washington office establish a business marketing branch to interface between available business opportunities and local rural area action committees.

I thank you for the opportunity to present my findings.

Ralph L. Hutcheson

Ralph L. Hutcheson, President
SCIENTIFIC MATERIALS CORP.